



# *Los Angeles World Airports*

## **Annual Financial Report**

for the fiscal years ended

**June 30, 2009 and 2008**

**Gina Marie Lindsey**

Executive Director

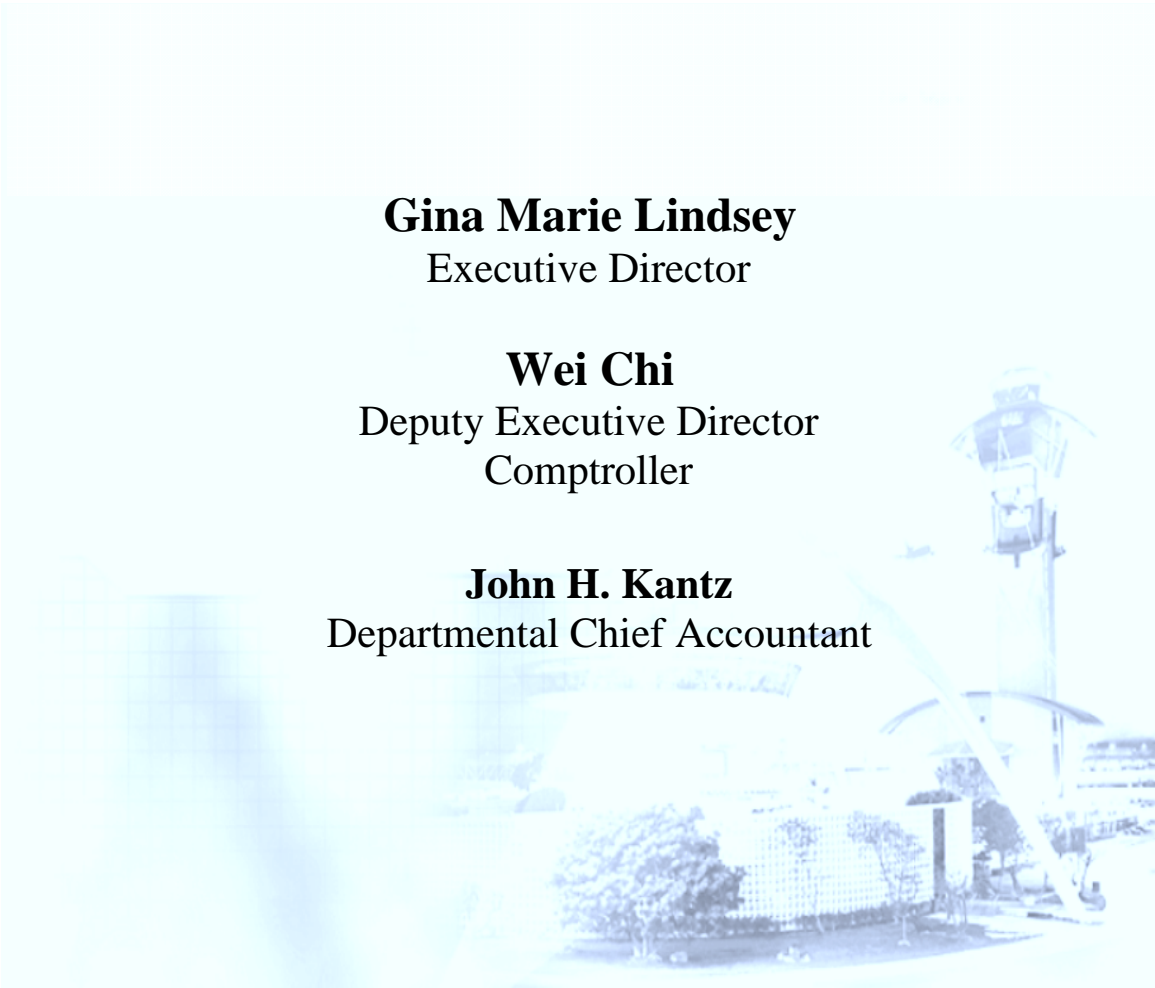
**Wei Chi**

Deputy Executive Director

Comptroller

**John H. Kantz**

Departmental Chief Accountant



**LOS ANGELES WORLD AIRPORTS**  
(Department of Airports of the City of Los Angeles, California)

Annual Financial Report  
For the Years Ended June 30, 2009 and 2008

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SACRAMENTO

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WALNUT CREEK

NEWPORT BEACH

SAN MARCOS

SAN DIEGO

## INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Airport Commissioners  
City of Los Angeles, California

We have audited the accompanying basic financial statements of the Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles (City), as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of LAWA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LAWA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LAWA as of June 30, 2009 and 2008 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the basic financial statements, LAWA implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, during the fiscal year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2009, on our consideration of LAWA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended June 30, 2009. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 22 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on LAWA's financial statements. The combining financial statements on pages 54 through 56 listed in the accompanying table of contents as supplemental information are presented for purposes of additional analysis and are not a required part of the financial statements. This supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Macias Fini & O'Connell LLP*

Certified Public Accountants

Los Angeles, California

December 30, 2009, except for the third paragraph of Note 15(a)  
as to which the date is January 4, 2010

**LOS ANGELES WORLD AIRPORTS**  
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Los Angeles World Airports (LAWA) is an independent and financially self-sufficient department of the City of Los Angeles, California (City) and is an enterprise fund comprised of four separate airports. LAWA owns and operates Los Angeles International Airport (LAX), LA/Ontario International Airport (ONT), Van Nuys Airport (VNY), and LA/Palmdale Regional Airport (PMD). The information presented in this "Management's Discussion and Analysis" (MD&A) is intended to be a narrative overview of LAWA's financial statements as of and for the years ended June 30, 2009 and 2008. We encourage readers to consider this information in conjunction with the accompanying financial statements.

The financial statements contained in this report are prepared in accordance with generally accepted accounting principles using the accrual basis of accounting. LAWA applies Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless such pronouncements conflict or contradict GASB pronouncements. LAWA recognizes the financial reporting model set forth in GASB 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and its related GASB pronouncements and interpretations, and hereby presents its financial statements in conformance with such pronouncements.

**Financial Highlights of Airport Activities**

For fiscal year 2009, LAWA increased its net assets by \$268.5 million or 8.3% to \$3.5 billion. The change in net assets is 24% or \$84.6 million less than the change in net assets for prior fiscal year of \$353.1 million. This decrease was mainly due to the economic downturn since the near financial system collapse in September 2008. Investment values dropped and there was a large decline in passenger traffic and aircraft movements for fiscal year 2009. Though income from operations, including depreciation and amortization, increased by \$10.1 million to \$51.6 million, or 24.4%, from fiscal year 2008; net nonoperating revenue decreased by \$59.5 million, or 31.9%, to \$126.8 million over the prior year. Included in this \$59.5 million net nonoperating revenue decrease are a \$12.8 million liability account that was set up for claims and pollution remediation and a \$10.0 million payout made to United Airlines for the early termination of some of its lease with LAX. Capital grant contributions also decreased by \$35.2 million or 28.1%; which consist of a \$38.1 million decrease at ONT, offset by increases at LAX and VNY for \$1.4 million and \$1.5 million, respectively.

The growth in operating income is primarily due to the increase in building rentals by \$38.0 million or 21.4%. Operating expenses excluding depreciation and amortization also decreased by \$6.0 million, or 0.9%. This fiscal year's net decrease in nonoperating revenue is due to decreases in the fair value of investments by \$21.5 million or 89.2%, and passenger facility charges by \$15.3 million or 11.8%; combined with the increase in other nonoperating expenses, net, by \$23.4 million to \$22.0 million. Capital grant contributions are composed of two categories: capital grant contributions that are for projects approved under the Federal Aviation Administration's Airport Improvement Program (AIP); and contributions from the Transportation Security Administration (TSA) for approved security-related capital reimbursement programs. For combined LAWA, fiscal year 2009 TSA contributions increased by \$6.8

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**Financial Highlights of Airport Activities (continued)**

million to \$75.8 million, while contributions from AIP grants decreased by \$42.0 million to \$14.3 million.

As of June 30, 2009, total assets at LAWA of \$5.0 billion increased \$608.7 million, or 13.8%, over fiscal year 2008. Of this growth, \$430.6 million is due to the increase in net capital assets specifically: \$457.7 million increase in the construction work-in-process category, and \$74.0 million growth in buildings, improvements and equipment, offset by an increase in accumulated depreciation of \$107.1 million during the year. During fiscal year 2009, there were significant expenditures made for major capital projects currently underway which include: interior improvements at the Tom Bradley International Terminal at LAX for \$207.9 million; security program in-line baggage screening systems for \$64.1 million at LAX and \$14.9 million at ONT; LAX noise mitigation projects of \$32.1 million and \$1.9 million at ONT; and Southside airfield intersection improvements project at LAX for \$27.3 million.

LAWA depends primarily on passenger traffic to generate the majority of its aviation related revenue. During fiscal year 2009, LAWA was greatly affected by the struggling economy as travelers pulled back on spending. Passenger traffic dropped by 7.6 million or 10.9% to 61.8 million over fiscal year 2008 levels of 69.4 million. In fiscal year 2008, passenger traffic at LAWA increased from its fiscal year 2007 levels of 68.6 million. Also, LAWA is below the peak level that it reached with 74.1 million in combined LAX and ONT passengers during fiscal year 2001.

LAWA continues to engage in the residential sound insulation program. Funding for this program, which offers mitigation features that improve affected homes, has come primarily from Passenger Facility Charges (PFC) collected from certain enplaned passengers at LAWA. As of June 30, 2009 and 2008, the PFC collection rate is \$4.50 per airline ticket at LAX and \$3.00 at ONT. At the end of fiscal year 2009, cumulative PFC collections were \$1.5 billion, consisting of \$1.3 billion in passenger collections and \$170.0 million in interest. At the end of fiscal year 2008, cumulative PFC collections amounted to \$1.4 billion, of which \$1.2 billion were passenger collections and \$146.0 million was interest.

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**Income from Operations**

*Fiscal Year 2009 Compared to 2008.* For the fiscal year ended June 30, 2009, LAWA generated \$51.6 million income from operations, net of depreciation and amortization, showing a \$10.1 million improvement over the prior fiscal year's income from operations of \$41.5 million. Operating revenues increased by \$7.3 million, or 0.9%, to \$781.6 million mainly due to the increase in building rentals by \$38.0 million or 21.4%. Building rentals increased because of the partial settlement with certain Airlines who disputed any rent increases back in 2007. Between October 2007 and December 2008, all disputed rent increases were deferred until a settlement was reached. The settlement was reached during fiscal year 2009 and resulted with timely rent adjustments that cushioned decreases in: concession revenue of \$16.3 million, or 5.2%, to \$299.8 million; landing fees by \$8.3 million or 4.3% to \$185.6 million; and other aviation revenues by \$6.0 million or 7.4% to \$75.6 million. The decreases in concession and aviation revenues were directly caused by the big drop in passenger traffic and aircraft movements. Also contributing to the net increase in income from operations is the decrease in operating expenses, excluding depreciation and amortization, by \$6.0 million, or 0.9%, to \$621.1 million in fiscal year 2009 from \$627.1 million in fiscal year 2008. Lastly, depreciation and amortization expenses grew by \$3.1 million or 3% to \$108.9 million in fiscal year 2009.

*Fiscal Year 2008 Compared to 2007.* For the fiscal year ended June 30, 2008, LAWA had a \$41.5 million income from operations, net of depreciation and amortization, showing a \$45.8 million improvement over the prior fiscal year's loss from operations of \$4.3 million. Operating revenues increased by \$115.3 million, or 17.5%, to \$774.3 million driven by the growth in concession revenue of \$51.0 million, or 19.2%, to \$316.1 million and the increase in aviation revenues by \$64.7 million, or 16.7% to \$452.8 million. Operating expenses, excluding depreciation and amortization, increased by \$56.0 million, or 9.8%, to \$627.1 million. The three major expense categories that significantly impacted this growth were: salaries and benefits, contractual services and utilities. Salaries and benefits of \$344.3 million increased \$40.6 million, or 13.4%, while contractual services and utilities grew by \$11.2 million, or 6.9%, to \$174.0 million, and \$8.1 million, or 31.7%, to \$33.6 million, respectively. Decreases in materials and supplies and advertising and public relations of \$5.0 million, or 9.8%, and \$1.6 million, or 15.0%, respectively, partly offset the growth in operating expenses.

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**Change in Net Assets**

*Fiscal Year 2009 Compared to 2008.* LAWA's \$268.5 million change in net assets for fiscal year 2009 is composed of net operating income of \$51.6 million, net nonoperating revenues of \$126.8 million and capital grant contributions of \$90.1 million. The 24.0% reduction of LAWA's change in net assets, of \$84.6 million from the prior fiscal year results of \$353.1 million, is due to several key reasons. First, the main sources of revenues have decreased as described in the previous section. Second, there was a substantial drop in the fair value of investments by \$21.5 million, or 89.2% primarily due to the economic deterioration in the country's investment and money markets. Lastly, capital grant contribution receipts this fiscal year are \$35.2 million or 28.1% lower compared to last fiscal year because of the net decrease in capital expenditures eligible for reimbursement. TSA contributions received this year are \$6.8 million or 9.9% more than last fiscal year, while contributions from the Federal Aviation Administration went down by \$42.0 million or 74.6% this year over the prior year.

*Fiscal Year 2008 Compared to 2007.* LAWA's \$353.1 million change in net assets for fiscal year 2008 is composed of net operating income of \$41.5 million, net nonoperating revenues of \$186.4 million and capital grant contributions of \$125.3 million. The growth of LAWA's change in net assets, of \$109.6 million, is 45.0% higher than the prior fiscal year results of \$243.5 million. Three main factors accounted for this growth. First, there was a considerable increase in operating income to \$41.5 million in fiscal year 2008 versus an operating loss of \$4.3 million in fiscal year 2007 as described in the preceding section. Second, nonoperating revenue grew by \$20.6 million or 12.4% due to higher interest income by \$8.1 million, or 17.4%, net increase in the fair value of investments by \$10.0 million, or 70.5%, and increase in collection of passenger facility charges by \$3.6 million or 2.9%. Third, \$43.2 million more in capital grant contributions were received this fiscal year over last year. The TSA contributions received this year are \$57.0 million more than last fiscal year, while contributions from the Federal Aviation Administration went down by \$13.7 million this year over the prior year, resulting in a net increase of \$43.2 million or 52.6%.

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(Unaudited)

June 30, 2009 and 2008

**Net Asset Summary**

Net assets serve as an indicator of LAWA's financial position. As of June 30, 2009, LAWA assets exceeded its liabilities by \$3.5 billion.

A summary of LAWA's net assets for fiscal years (FY) 2009, 2008, and 2007 is shown below:

**Summary Statement of Net Assets**

(Dollars in thousands)

Assets:	<u>FY2009</u>	<u>FY2008</u>	<u>FY2007</u>
Current assets	\$ 771,635	\$ 618,152	\$ 647,957
Current restricted assets	965,876	945,997	860,770
Capital assets, net	3,261,207	2,830,640	2,381,723
Deferred bond issuance expenses	8,098	3,351	3,732
Total assets	<u>5,006,816</u>	<u>4,398,140</u>	<u>3,894,182</u>
<b>Liabilities:</b>			
Current liabilities payable from unrestricted assets	216,901	467,017	282,760
Current liabilities payable from restricted assets	111,088	207,568	243,405
Long-term liabilities	1,179,791	493,013	490,571
Total liabilities	<u>1,507,780</u>	<u>1,167,598</u>	<u>1,016,736</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	2,113,612	2,259,002	1,992,657
<b>Restricted:</b>			
Capital projects	705	678	645
Debt service	186,337	33,193	33,231
Special purpose	730,420	721,611	599,578
Central utility plant	39,721	-	-
Unrestricted	428,241	216,058	251,335
Total net assets	<u>\$ 3,499,036</u>	<u>\$ 3,230,542</u>	<u>\$ 2,877,446</u>

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(Unaudited)

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**Current Assets**

*Fiscal Year 2009 Compared to 2008.* For fiscal year 2009, LAWA's current assets increased by \$153.5 million, or 24.8%, due to the \$139.3 million increase in cash and pooled investments held by the City Treasurer and a net increase of \$13.7 million in accounts and unbilled receivables. The increase in these accounts is driven by the daily operating activities at LAX and ONT airports.

*Fiscal Year 2008 Compared to 2007.* For fiscal year 2008, LAWA's current assets decreased by \$29.8 million, or 4.6%, due to the \$51.7 million decrease in cash with fiscal agent, and net decrease of \$14.9 million in accounts and unbilled receivables. This is offset by the \$36.9 million increase in cash and pooled investments held by the City Treasurer. The decrease in cash with fiscal agent is mainly due to the \$53.1 million payment of LAX's commercial paper in fiscal year 2008. LAWA's increased invoicing and collection efficiency and credit memos issued from certain building rental revenue settlements resulted in the decrease in accounts receivable. The increase in cash and pooled investments held by the City Treasurer is driven by daily operating activities at LAX and ONT airports.

**Current Restricted Assets**

*Fiscal Year 2009 Compared to 2008.* Restricted assets had a net increase of \$19.9 million or 2.1% to \$965.9 million. This is due to a combination of events that occurred in fiscal year 2009. In November 2008, the City temporarily suspended the securities lending program due to the extreme volatility of the financial markets, thereby decreasing the cash invested in securities lending transactions by \$183.7 million. Also, during fiscal year 2009, LAWA issued three series of bonds and reimbursed the Department for previous capital expenditures, paid for future capital expenditures, repaid outstanding commercial paper notes and refunded the balance of LAX 1995 D bonds from the proceeds. These bond activities caused the net increase in restricted cash with fiscal agents as of June 30, 2009 by \$158.5 million. Lastly, the net increase in restricted assets is due to the increase in restricted invested cash and pooled investments held by the City Treasurer, excluding securities lending program (SLP) collateral and fair value adjustment, by \$43.2 million, or 6.2%, to \$739.3 million.

*Fiscal Year 2008 Compared to 2007.* Restricted assets of \$946.0 million increased by \$85.2 million, or 9.9%. This is primarily due to the increase in restricted invested cash and pooled investments held by the City Treasurer, excluding securities lending program (SLP) collateral and fair value adjustment, of \$85.1 million, or 13.9%, to \$696.1 million. The change in other restricted asset account is mainly due to the increase in cash reserved for market valuation by \$20.9 million or 173.9%, and, the decrease in SLP by \$18.1 million, or 9.0%, although counterbalancing. Also, PFC receivables and accrued interest receivables decreased by \$1.5 million, or 7.5% to \$18.4 million, and \$1.1 million, or 19.3% to \$4.4 million, respectively.

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**Capital Assets**

*Fiscal Year 2009 Compared to 2008.* Net capital assets at LAWA of \$3.3 billion reflect growth of \$430.6 million, or 15.2%, mainly due to increases in construction work in process by \$457.7 million and in buildings, improvements, and equipment by \$74.0 million. Significant capital expenditures were made at LAX for interior improvements at the Tom Bradley International Terminal, security program-in-line baggage screening systems, Southside airfield intersection improvement projects, and noise mitigation projects. A portion of this growth was offset by a \$107.1 million, or 8.6%, increase in accumulated depreciation.

The table below lists fiscal year 2009 expenditures of major capital improvement projects. Commitments for the major capital projects listed on this table are included in the total commitment amount of \$125.8 million, as shown in Note 10 (c) of the accompanying notes to financial statements.

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(Unaudited)

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<b>MAJOR CAPITAL EXPENDITURES</b>		
<b>FISCAL YEAR 2009</b>		
<b>(Dollars in millions)</b>		
<b>Project Name by Airport Location</b>	<b>Expenditure</b>	<b>Purpose</b>
<b>LAX</b>		
Tom Bradley International Terminal	\$ 207.9	Interior improvements and security upgrades.
Security Program-In-Line Baggage Screening	64.1	Screening of check-in baggage prior to passenger boarding.
Southside Airfield Improvement-Airfield Intersection	27.3	Improve various airfield intersections and provide safe taxiing routes for large aircrafts now and in the
Noise Mitigation	32.1	Residential acquisition and soundproofing.
Passenger Boarding Bridges (PBB) Replacements & Extensions	4.7	Delivery and installation of 26 new Passenger Boarding Bridges at TBIT
Runway Status Lights Infrastructure	5.0	Construction of infrastructure improvements
Midfield Satellite Concourse	13.3	
Other Capital Expenditures*	78.6	
<b>Subtotal</b>	<b>\$ 433.0</b>	
<b>ONT</b>		
Security Program-In-Line Baggage Screening	\$ 14.9	Screening of check-in baggage prior to passenger boarding.
Noise Mitigation	1.9	Residential acquisition and soundproofing.
Other Capital Expenditures*	2.3	
<b>Subtotal</b>	<b>\$ 19.1</b>	
<b>VNY/PMD</b>		
Propeller AAC-VNY	\$ 5.0	Propeller AAC Site Preparation
Central Utility Plant (CUP)-PMD	1.3	Installation of a new CUP for Hanger Building 703
Noise Mitigation-PMD	0.1	Residential acquisition and soundproofing.
Other Capital Expenditures*	1.3	
<b>Subtotal</b>	<b>\$ 7.7</b>	
<b>LAWA TOTAL</b>	<b>\$ 459.8</b>	

\*Includes projects in bidding and procurement phase

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**Capital Assets (continued)**

The table below lists fiscal year 2008 expenditures of major capital improvement projects. Commitments for the major capital projects listed on this table are included in the total commitment amount of \$96.1million, as shown in Note 10 (c) of the accompanying notes to financial statements.

<b>MAJOR CAPITAL EXPENDITURES</b>		
<b>FISCAL YEAR 2008</b>		
<b>(Dollars in millions)</b>		
<b>Project Name by Airport Location</b>	<b>Expenditure</b>	<b>Purpose</b>
<b>LAX</b>		
Tom Bradley International Terminal	\$ 270.5	Interior improvements and security upgrades.
Noise Mitigation	13.1	Residential acquisition and soundproofing.
Security Program-In-Line Baggage Screening	36.1	Screening of check-in baggage prior to passenger boarding.
Southside Airfield Improvement	90.7	Move southern-most runway 50 feet to allow greater distance between aircraft.
Other Capital Expenditures"	28.1	
<b>Subtotal</b>	<b>\$ 438.5</b>	
<b>ONT</b>		
Security Program-Upgrades	\$ 13.2	Perimeter/cargo upgrades, passenger checkpoint modifications.
Security Program-In-Line Baggage Screening	40.1	Screening of check-in baggage prior to passenger boarding.
Other Capital Expenditures*	5.8	
<b>Subtotal</b>	<b>\$ 59.1</b>	
<b>VNY/PMD</b>		
Maintenance Yard Relocation-VNY	\$ 4.4	Construction of approximately 20,000 sq. ft.of buildings, shop space and utilities. Also, grading and paving of 3.5 acres for this yard.
Other Capital Expenditures*	1.8	
<b>Subtotal</b>	<b>\$ 6.2</b>	
<b>LAWA TOTAL</b>	<b>\$ 503.8</b>	

\*Includes projects in bidding and procurement phase

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**Capital Assets (continued)**

*Fiscal Year 2008 Compared to 2007.* Net capital assets at LAWA of \$2.8 billion reflect growth of \$448.9 million, or 18.8%, due primarily to increases in construction work in process by \$496.2 million and in buildings, improvements, and equipment by \$56.1 million. Significant capital expenditures were made at LAX for noise mitigation projects, Southside airfield projects, interior improvements at the Tom Bradley International Terminal, and in-line baggage screening systems. A substantial portion of this growth was offset by a \$103.4 million, or 9.0%, increase in accumulated depreciation.

**Total Liabilities**

*Fiscal Year 2009 Compared to 2008.* At June 30, 2009, total liabilities of \$1.5 billion increased by \$340.2 million, or 29.1% compared to the prior fiscal year. The net increase was brought about by a combination of events and transactions that transpired in fiscal year 2009.

Current liabilities payable from unrestricted assets decreased by \$250.1 million, primarily due to repayment of the outstanding Series A and Series B commercial paper notes. The repayment decreased the commercial paper liability account by \$233.4 million or 70.6%. Expenses were controlled considerably, thus contracts and accounts payable decreased by \$15.8 million or 13.6% as well as accrued interest payable by \$0.5 million or 94.7%. Other liabilities also decreased \$2.8 million or 51%, while salaries and employee benefits payable increased by \$2.1 million or 15.5%.

Current liabilities payable from restricted assets are down by \$96.5 million, or 46.5%. This is due to the suspension of the securities lending program (SLP), thus decreasing the SLP balance by \$183.7 million to zero and the increase of \$85.3 million mainly due to an \$81.1 million in variable rate bonds with a credit facility that expires in March 2010. Accrued bond interest payable also increased by \$5.3 million or almost four times more than last fiscal year because of three series bonds issued this fiscal year. Lastly, contracts and accounts payable decreased by \$3.4 million or 63%.

Long-term liabilities of \$1.2 billion increased by \$686.8 million, or 139.3%. This was primarily due to the three bond issuances made in fiscal year 2009 which increased long-term liabilities by \$729.9 million or almost threefold. On the other hand, a partial settlement agreement was reached this fiscal year in connection with the terminal rents dispute with the airlines dating back to fiscal year 2007. Inclusive of interest, the settlement reduced the customer liability on protested revenue by \$61.6 million or 64.8%. As of June 30, 2009, the remaining balance of this account is \$33.5 million, or 35.2% of last fiscal year's balance. A liability for environmental and/or hazardous cleanup of \$12.8 million has also been set up in fiscal year 2009 to provide for the financial impact of implementing a new accounting standard for pollution remediation. Also, the liability for claims and litigation was adjusted to set aside funds for probable and estimable liabilities by \$3.6 million or 19.8%. The long-term portion of employee benefits payable increased by \$3.3 million. Lastly, the obligation under capital leases account also decreased by \$1.3 million of 2.6%.

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**Total Liabilities (continued)**

LAWA's bonds are rated periodically by the three major credit agencies: Standard & Poor's, Moody's, and Fitch. For LAX, the ratings at June 30, 2009 are AA, Aa3, and AA for each credit agency, respectively. For ONT, the ratings are A, A2, and A, respectively.

*Fiscal Year 2008 Compared to 2007.* At June 30, 2008, total liabilities of \$1.168 billion increased by \$150.9 million, or 14.8%. The factors contributing to this increase stem from the combined growth of \$148.4 million in current liabilities and \$2.4 million in long-term liabilities.

Current liabilities payable from unrestricted assets increased by \$184.3 million, due primarily to the net receipts and payments of \$151.5 million in commercial paper notes and a \$34.1 million increase in contracts and accounts payable.

Current liabilities payable from restricted assets are down by \$35.8 million or 14.7%. This is mainly due to the decreased allocation by the City Treasurer for the SLP collateral's offsetting liability of \$18.1 million, and the decline in contracts and accounts payable by \$18.6 million.

Long-term liabilities of \$493.0 million slightly increased by \$2.4 million, or 0.5% due to the increase in employee benefits by \$17.7 million, or 56.3%, offset by the decrease in long term bonded debt by \$17.1 million, or 5.8%. A large part of the increase in employee benefits is due to the \$15.0 million accrual of vested benefits for sick leave and vacation balances. The decrease in bonded debt was merely due to a transfer to current liability.

LAWA's bonds are rated periodically by the three major credit agencies: Standard & Poor's, Moody's, and Fitch. For LAX, the ratings at June 30, 2008 are AA, Aa3, and AA for each credit agency, respectively. For ONT, the ratings are A, A2, and A, respectively.

**LOS ANGELES WORLD AIRPORTS**  
 (Department of Airports of the City of Los Angeles, California)  
 Management's Discussion and Analysis (Continued)  
 (Unaudited)  
 June 30, 2009 and 2008

**Highlights of Changes in Net Assets**

The following table illustrates a condensed summary of changes in net assets for fiscal year (FY) 2009, 2008, and 2007:

**Summary Statement of Changes in Net Assets**

(Dollars in thousands)

	<b>FY2009</b>	<b>FY2008</b>	<b>FY2007</b>
Operating revenue	\$ 781,590	\$ 774,288	\$ 659,025
Operating expenses excluding depreciation and amortization	(621,121)	(627,073)	(571,087)
Income from operations before depreciation and amortization	160,469	147,215	87,938
Depreciation and amortization	(108,887)	(105,762)	(92,230)
Operating income(loss)	51,582	41,453	(4,292)
Nonoperating revenue, net	126,843	186,351	165,748
Income before capital grant contributions	178,425	227,804	161,456
Capital grant/TSA contributions	90,069	125,292	82,088
Change in net assets	268,494	353,096	243,544
Net assets at beginning of year	3,230,542	2,877,446	2,633,902
Net assets at end of year	<u>\$ 3,499,036</u>	<u>\$ 3,230,542</u>	<u>\$ 2,877,446</u>

**Passengers**

*Fiscal Year 2009 Compared to 2008.* Passenger traffic at LAWA was significantly affected by the economic slump that started in September 2008. Fuel prices soared, unemployment rates went up and travelers pulled back on spending. Total passengers dropped by 7.6 million or 10.9% to 61.8 million over fiscal year 2008 levels of 69.4 million. This decrease is comprised mainly of: the reduction at LAX of 5,715,714 passengers to 56,547,039; and by a decrease of 1,834,168 passengers at ONT to 5,267,290.

*Fiscal Year 2008 Compared to 2007.* When compared to the previous year, total passengers at LAWA increased by approximately 1.1% or 752,490 for fiscal year 2008 to 69,386,660 annual passengers. This change is comprised of: the growth at LAX of 684,563 passengers to 62,262,753; by an increase of 46,749 passengers at ONT to 7,101,458; and by an increase of 21,178 passengers at PMD to 22,449.

**LOS ANGELES WORLD AIRPORTS**  
 (Department of Airports of the City of Los Angeles, California)

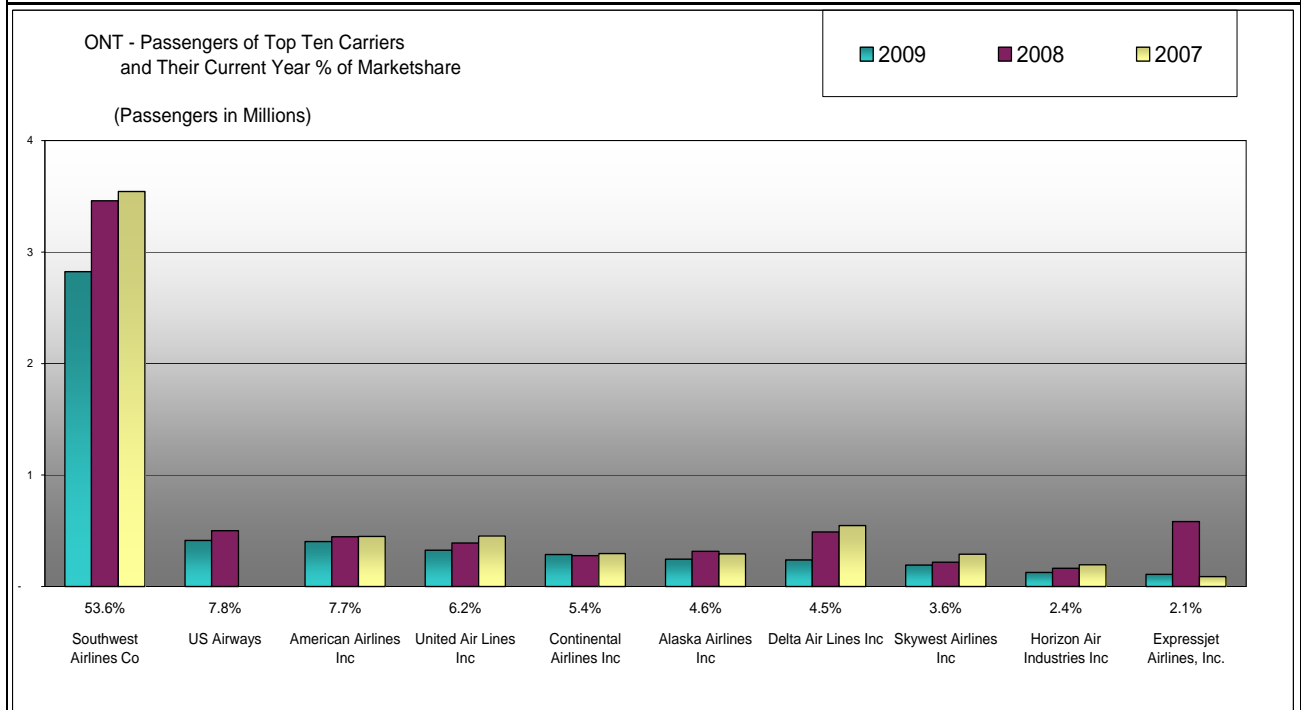
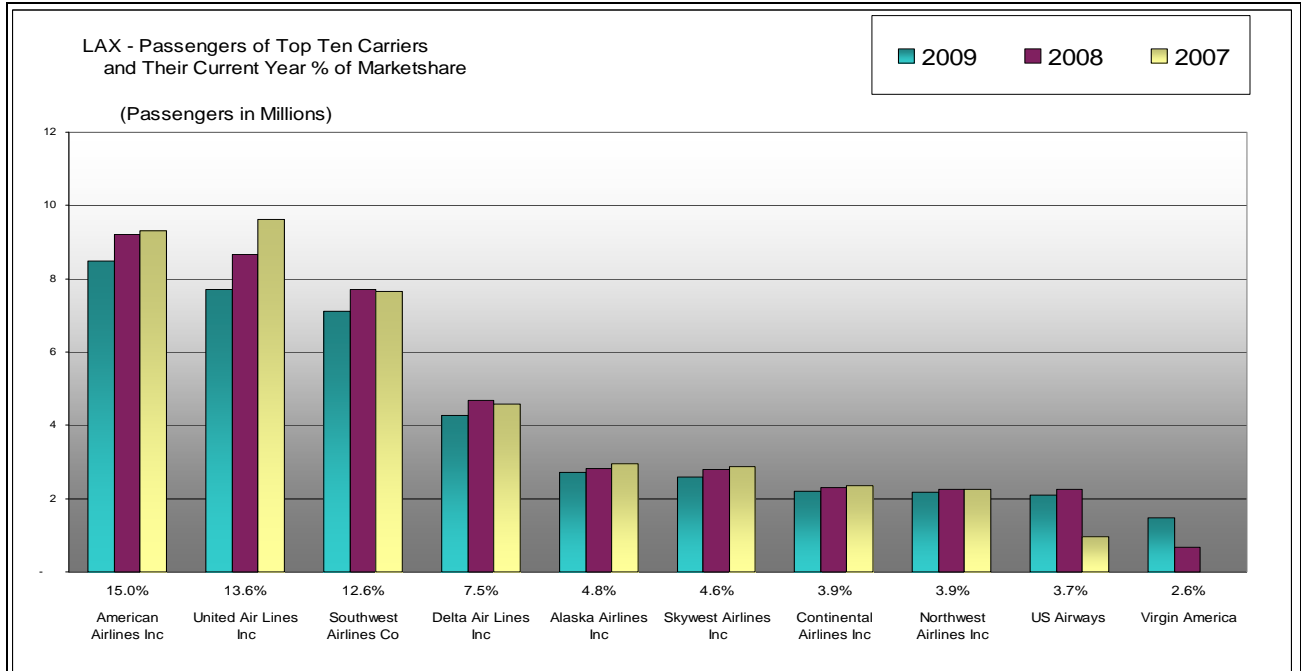
Management's Discussion and Analysis (Continued)

(Unaudited)

June 30, 2009 and 2008

**Passengers (continued)**

The following charts illustrate the top ten airlines at LAX and ONT by number of passengers for FY 2009, 2008, and 2007:



**LOS ANGELES WORLD AIRPORTS**  
 (Department of Airports of the City of Los Angeles, California)

Management's Discussion and Analysis (Continued)

(Unaudited)

June 30, 2009 and 2008

**Operating Revenues**

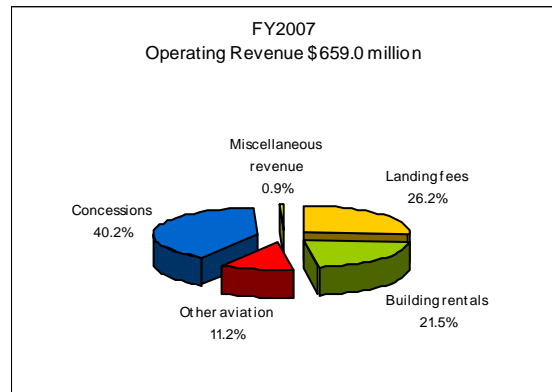
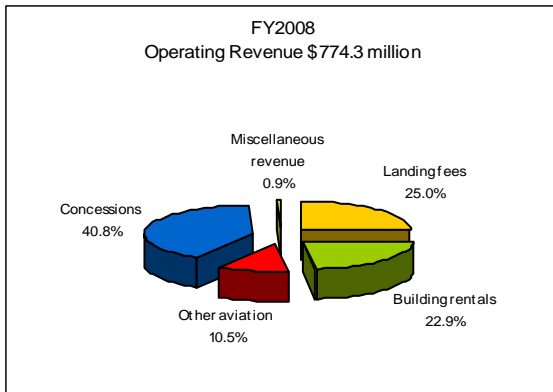
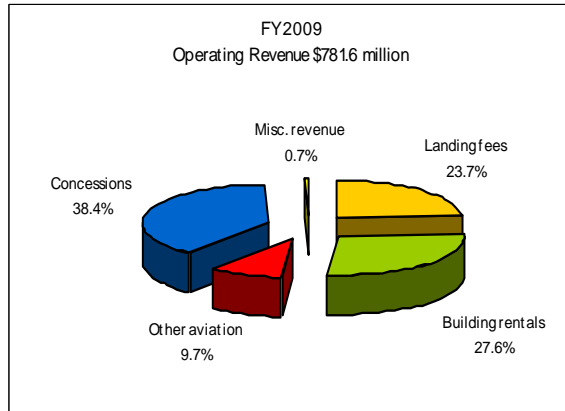
LAWA derives its operating revenues from several major airport business activities. The following table illustrates a comparative summary of the major operating revenue categories in FY 2009, 2008, and 2007:

**Summary of Operating Revenues**

(Dollars in thousands)

	<b>FY2009</b>	<b>FY2008</b>	<b>FY2007</b>
Landing fees	\$ 185,553	\$ 193,805	\$ 172,495
Building rentals	215,365	177,362	141,521
Other aviation revenue	75,624	81,632	74,114
Concession revenue	299,814	316,116	265,112
Airport sales and services	2,541	2,911	3,306
Miscellaneous revenue	2,693	2,462	2,477
<b>Total operating revenue</b>	<b>\$ 781,590</b>	<b>\$ 774,288</b>	<b>\$ 659,025</b>

The following charts illustrate the distribution of the major sources of operating revenues for FY 2009, 2008, and 2007:



**LOS ANGELES WORLD AIRPORTS**  
(Department of Airports of the City of Los Angeles, California)

Management's Discussion and Analysis (Continued)  
(Unaudited)

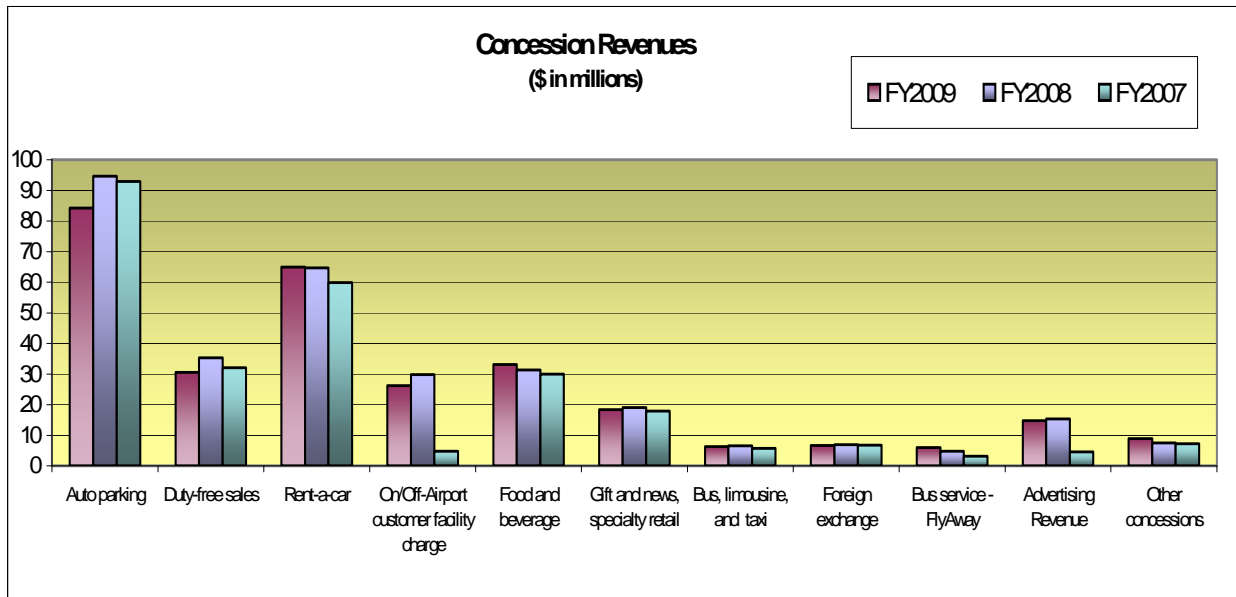
June 30, 2009 and 2008

**Operating Revenues (continued)**

*Fiscal Year 2009 Compared to 2008.* For fiscal year 2009, LAWA's total operating revenues slightly increased by \$7.3 million, or 0.9%, to \$781.6 million, mainly due to the increase in building rentals by \$38.0 million or 21.4%. However, this increase was offset by the decreases in concession revenue of \$16.3 million, or 5.2%, to \$299.8 million; landing fees by \$8.3 million, or 4.3% to \$185.6 million; and other aviation revenues by \$6.0 million or 7.4% to \$75.6 million. Miscellaneous revenue and airport sales and services combined, decreased by a net of \$0.1 million or 2.6%.

*Fiscal Year 2008 Compared to 2007.* For fiscal year 2008, LAWA's total operating revenues increased by \$115.3 million, or 17.5%, to \$774.3 million, mainly due to a \$51.0 million, or 19.2% increase in concession revenues, and \$35.8 million, or 25.3%, growth in revenue from building rentals. Additionally, LAWA's landing fees increased \$21.3 million, or 12.4%, while other aviation revenue increased \$7.5 million, or 10.1%. A new concession revenue item for LAX this year is On-Airport Customer Facilities Charge (CFC). CFC is a fee collected by the airport from customers per vehicle rental. The charge is similar to a Passenger Facility Charge except that it is not airline-related and is classified as operating revenue. It generated total revenue of \$25.0 million and is mainly contributory to the increase in concession revenue this fiscal year. Additionally, advertising revenue which totaled \$15.4 million went up by \$10.8 million or an over two-fold increase when compared to the prior fiscal year. The advertising revenue increase is composed of \$9.5 million from LAX and \$1.3 million from ONT.

The following chart illustrates the categories of concession revenues by type for FY2009, 2008, and 2007:



**LOS ANGELES WORLD AIRPORTS**  
 (Department of Airports of the City of Los Angeles, California)  
 Management's Discussion and Analysis (Continued)  
 (Unaudited)  
 June 30, 2009 and 2008

**Operating Revenues (continued)**

The table below presents concession revenues on a per enplanement basis to indicate spending activity for passengers that pass through LAWA's primary airports. Between fiscal year 2008 to fiscal year 2009, enplanements at LAX decreased by 9.0%, while concession revenues per enplanement increased by 5.8% to \$9.36. In fiscal year 2008, enplanements at LAX increased by 1.3% over the prior fiscal year, while concession revenues per enplanement grew by 19.8% to \$8.85. These results show that passenger spending has steadily increased at LAX from 2007 through 2009.

At ONT, enplanements in 2009 were 25.9% below 2008, while concession revenues increased 15.4% to \$13.15 per enplaned passenger during this fiscal period. ONT enplanements in 2008 were 0.8% above 2007, while concession revenues per enplanement increased 5.8% to \$11.40. This table indicates that passengers were spending more money on ONT concessions than at LAX on a per enplanement basis.

<b>LOS ANGELES WORLD AIRPORTS CONCESSION REVENUES PER ENPLANEMENT FOR FISCAL YEARS 2009, 2008, AND 2007</b>			
	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b><u>Los Angeles International Airport</u></b>			
Enplanements	28,328,978	31,142,339	30,751,547
Concession Revenues Per Enplanement	\$9.36	\$8.85	\$7.39
<b><u>Ontario International Airport</u></b>			
Enplanements	2,631,192	3,548,882	3,521,926
Concession Revenues Per Enplanement	\$13.15	\$11.40	\$10.77

**LOS ANGELES WORLD AIRPORTS**  
 (Department of Airports of the City of Los Angeles, California)  
 Management's Discussion and Analysis (Continued)  
 (Unaudited)  
 June 30, 2009 and 2008

**Operating Expenses**

The following table provides a comparative summary of operating expenses in FY2009, 2008, and 2007:

**Summary of Operating Expenses**  
 (Dollars in thousands)

	<u><b>FY2009</b></u>	<u><b>FY2008</b></u>	<u><b>FY2007</b></u>
Salaries and benefits	\$ 348,504	\$ 344,322	\$ 303,678
Contractual services	169,474	173,994	162,826
Materials and supplies	45,173	45,502	50,464
Administrative expense	1,860	2,392	892
Utilities	34,348	33,608	25,524
Advertising and public relations	8,450	9,019	10,612
Other operating expenses	<u>13,312</u>	<u>18,236</u>	<u>17,091</u>
Total operating expenses before depreciation and amortization	621,121	627,073	571,087
Depreciation and amortization	<u>108,887</u>	<u>105,762</u>	<u>92,230</u>
Total operating expenses	<u><u>\$ 730,008</u></u>	<u><u>\$ 732,835</u></u>	<u><u>\$ 663,317</u></u>

*Fiscal Year 2009 Compared to 2008.* For fiscal year 2009, LAWA's operating expenses before depreciation and amortization decreased by \$6.0 million, or 0.9%, over fiscal year 2008 to \$621.1 million. This is due to the successful implementation of cost cutting measures in response to the economic crisis. The salaries and benefits expense account, which make up over half of LAWA's total operating expenses before depreciation and amortization increased by only \$4.2 million or 1.2% despite the 3% average increase in cost of living allowance. Total number of active employees as of June 30, 2009 is 3,725, which is 27 employees or 0.7% less than the prior fiscal year end of 3,752.

Contractual services, the second largest component of total operating expenses, which accounts for over a quarter of the total operating expenses before depreciation and amortization, decreased by \$4.5 million, or 2.6%, to \$169.5 million due to budget cuts that were implemented this fiscal year. Other operating expenses also decreased by \$4.9 million or 27.0% to \$13.3 million. Materials and supplies, which make up about 7% of the total operating expenses slightly decreased by \$0.3 million or 0.7%. Utilities expense, the fourth largest component of the total operating expenses, increased by \$0.7 million or 2.2%.

*Fiscal Year 2008 Compared to 2007.* For fiscal year 2008, LAWA's operating expenses before depreciation and amortization increased by \$56.0 million, or 9.8%, over fiscal year 2007 to \$627.1 million. The category that shows the highest operating expense growth is the salaries and benefits account, which grew \$40.6 million, or 13.4%, to \$344.3 million. The account has two large components, namely: salary expense and benefits expense. Of these large components, salary expense grew by \$18.5

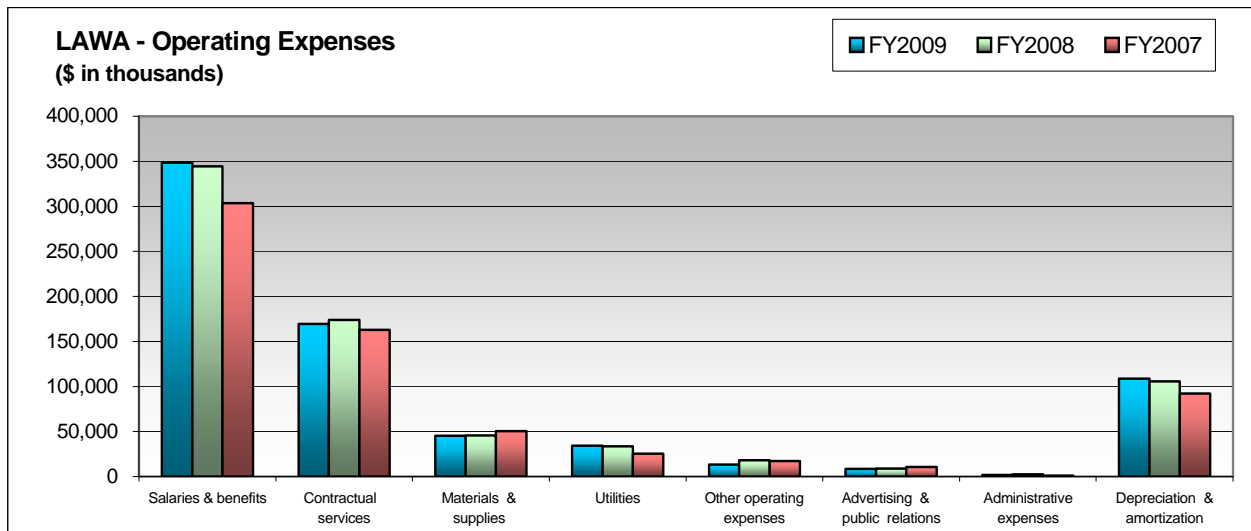
**LOS ANGELES WORLD AIRPORTS**  
 (Department of Airports of the City of Los Angeles, California)  
 Management's Discussion and Analysis (Continued)  
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 June 30, 2009 and 2008

**Operating Expenses (continued)**

million, or 8.3%, to \$242.0 million. This is in part due to the 3% average increase in cost of living allowance. The second component, employee benefits, increased \$22.1 million to \$102.4 million, or 27.6%. The growth to LAWA's benefits expense is mainly due to the \$15.0 million accrual of vested benefits for sick and vacation balances. Other significant impacts to the increased employee benefits expenses come from LAWA's retirement contribution and health subsidy payments to the City, which grew by \$7.3 million, or 16.6%, and \$4.3 million, or 17.0%, respectively. The higher cost of benefits expenses came also as a direct result of increases in both medical and dental insurance that LAWA pays for its larger employee base, growing by 1.0 % to 3,732 full time equivalent employees at June 30, 2008. Of the total LAWA staff, full time equivalent personnel of 3,182 and 431 are working at LAX and ONT, respectively.

The operating expense category having the second largest expense growth in fiscal 2008 is contractual services, which increased \$11.2 million, or 6.9%, to \$174.0 million. This is mainly due to new parking and transportation contracts entered into by LAWA's Landside Operations Division. Operating expenses also increased due to the \$8.1 million, or 31.7%, increase in utilities, offset by the \$5.0 million, or 9.8%, decrease in materials and supplies.

The following chart presents comparative growth in LAWA's operating expenses by category for FY 2009, 2008, and 2007:



**LOS ANGELES WORLD AIRPORTS**  
(Department of Airports of the City of Los Angeles, California)  
Management's Discussion and Analysis (Continued)

(Unaudited)

June 30, 2009 and 2008

**Nonoperating Revenue and Expenses**

Nonoperating revenue and expenses consist of transactions that are not normally associated with ongoing operations of LAWA, but the impact can be significant to the total change in net assets for the fiscal year. Examples are: receipts of interest from the investment of LAWA's idle cash by the City Treasurer, collections of FAA-approved Passenger Facilities Charges (PFC), and payments of debt-related interest.

*Fiscal Year 2009 Compared to 2008.* For fiscal year 2009, LAWA recorded a 31.9% decrease, or \$59.5 million, in net nonoperating revenues to \$126.8 million. This was again a result of the financial market crisis during the fiscal year 2009. There was a substantial decline in the fair value of investments resulting from the City of Los Angeles' pro-rata allocation from its investment pool to LAWA by \$21.5 million, or 89.2%. A more detailed explanation of the methodology impacting LAWA's investment activity is provided in Note 3 (a) and (c) of the accompanying notes to the financial statements. Also, PFC revenue of \$113.9 million decreased by \$15.3 million, or 11.8%, over the prior fiscal year. Of the total PFCs recorded during fiscal year 2009, \$104.0 million and \$9.9 million were reported by LAX and ONT, respectively. Furthermore, nonoperating expenses increased substantially by \$28.9 million or 127.5% to \$51.6 million primarily due to the \$16.9 million total increase in liabilities for claims and pollution remediation and a \$10.0 million payout made to United Airlines for the early termination of its lease agreement with LAWA. Starting this fiscal year GASB No. 49 "Accounting and Financial Reporting for Pollution Remediation Obligations" was implemented at LAWA. After an evaluation was performed to determine the risks associated with potential environmental and/or hazardous cleanup requirements by LAWA, a liability of \$12.8 million was set up to provide for the future financial impact of probable pollution remediation costs. Additional growth in nonoperating expenses resulted from a \$4.1 million increase to the reserve for claims and litigation reserve.

*Fiscal Year 2008 Compared to 2007.* For fiscal year 2008, LAWA recorded a 12.4% increase, or \$20.6 million, in net nonoperating revenues to \$186.4 million. This is due to the positive change of \$10.0 million in the fair value of investments resulting from the City of Los Angeles' pro-rata allocation from its investment pool to LAWA. Also, LAWA's interest income grew by \$9.2 million, or 20.1%, as a result of a positive market impact on its \$1.4 billion of invested cash. A more detailed explanation of the methodology impacting LAWA's investment activity is provided in Note 3 (a) and (c) of the accompanying notes to the financial statements. Additionally, PFC revenue of \$129.1 million increased by \$3.6 million, or 2.9%, over the prior fiscal year. Of the total PFCs recorded during fiscal year 2008, \$116.7 million and \$12.4 million were reported by LAX and ONT, respectively.

**LOS ANGELES WORLD AIRPORTS**  
(Department of Airports of the City of Los Angeles, California)  
Management's Discussion and Analysis (Continued)  
(Unaudited)  
June 30, 2009 and 2008

**Income before Capital Grant Contributions**

*Fiscal Year 2009 Compared to 2008.* Income before capital grant contributions was \$178.4 million for fiscal year 2009, which is 21.7%, or \$49.4 million, lower than the prior fiscal year amount of \$227.8 million. Capital grant contributions of \$90.1 million received this fiscal year is \$35.2 million or 28.1% lower compared to last fiscal year. Of this amount, \$88.2 million and \$1.8 million were reported by LAX and VNY, respectively. The TSA contributions received this year of \$75.8 million are \$6.8 million or 9.9% more than last fiscal year, while contributions from the Federal Aviation Administration went down to \$14.3 million by \$42.0 million or 74.6% this year over the prior year. LAWA's change in net assets for fiscal year 2009 of \$268.5 million is 24.0%, or \$84.6 million, lower than that of fiscal year 2008. Net assets increased by 8.3% to \$3.5 billion at the end of fiscal year 2009.

*Fiscal Year 2008 Compared to 2007.* Income before capital grant contributions was \$227.8 million for fiscal year 2008, which is 41.1%, or \$66.3 million, higher than the prior fiscal year amount of \$161.5 million. During fiscal year 2008, LAWA received TSA contributions for approved security-related capital reimbursement programs in the amount of \$69.0 million, an increase of \$57.0 million, or almost five times more than the prior year's total of \$12.0 million. Of this amount, \$52.3 million and \$16.6 million were reported by LAX and ONT, respectively. LAWA's change in net assets for fiscal year 2008 of \$353.1 million is 45.0%, or \$109.6 million, higher than that of fiscal year 2007. Net assets increased by 12.3% to \$3.2 billion at the end of fiscal year 2008.

**Additional Information**

Further information on the results of LAWA is provided in the accompanying audited financial statements and notes thereto for the years ended June 30, 2009 and 2008. This MD&A is designed to provide LAWA and its customers, investors, and creditors with a general overview of LAWA's financial condition and to present information about the money that it receives and spends for the fiscal years reported. If you have questions about this MD&A, or need additional financial information, please contact the Los Angeles World Airports Financial Reporting Division at 7301 World Way West, 6th Floor, Los Angeles, California 90045. Also, you may find historical and other useful information regarding LAWA and the other LAWA airports from our website at [www.lawa.org](http://www.lawa.org).

## **BASIC FINANCIAL STATEMENTS**

**LOS ANGELES WORLD AIRPORTS**  
 (Department of Airports of the City of Los Angeles, California)  
 Statements of Net Assets  
 June 30, 2009 and 2008  
 (Dollars in thousands)

	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>		
Current assets:		
Cash and pooled investments held by the City Treasurer (Note 3)	\$ 608,085	\$ 468,833
Investments with fiscal agents (Note 3)	101,879	101,780
Accounts receivable, net of allowance for uncollectible accounts of \$362 and \$1,242 in 2009 and 2008, respectively	11,314	15,717
Unbilled receivables	40,138	21,997
Accrued interest receivable	4,655	4,594
Prepaid expenses and inventories	5,564	5,231
Total unrestricted current assets	771,635	618,152
Restricted current assets:		
Cash and pooled investments held by the City Treasurer (Note 3)	750,771	888,698
Investments with fiscal agents (Note 3)	193,023	34,489
Accrued interest receivable	4,395	4,442
Passenger facility charges receivable (Note 12)	17,687	18,368
Total restricted current assets	965,876	945,997
Total current assets	1,737,511	1,564,149
Noncurrent assets:		
Capital assets (Notes 4 and 11):		
Land and air easements	751,992	751,992
Buildings, improvements, and equipment	2,271,830	2,197,803
Leased property	184,423	184,423
Intangible assets	5,918	-
Less accumulated depreciation and amortization	(1,358,973)	(1,251,877)
Construction work in process	1,406,017	948,299
Net capital assets	3,261,207	2,830,640
Deferred bond issuance expenses	8,098	3,351
Total noncurrent assets	3,269,305	2,833,991
Total assets	\$ 5,006,816	\$ 4,398,140

See accompanying notes to financial statements.

**LOS ANGELES WORLD AIRPORTS**  
(Department of Airports of the City of Los Angeles, California)  
Statements of Net Assets (Continued)  
June 30, 2009 and 2008  
(Dollars in thousands)

	<b>2009</b>	<b>2008</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Current liabilities payable from unrestricted assets:		
Contracts and accounts payable	\$ 100,374	\$ 116,136
Employee benefits and insurance claims payable (Note 6)	9,165	6,851
Salaries payable	6,262	6,504
Commercial paper notes payable (Note 5)	96,989	330,228
Current obligations under capital leases (Notes 6 and 11)	1,311	1,197
Accrued interest payable	26	491
Unearned revenue (Note 6)	50	50
Other liabilities (Note 6)	2,724	5,560
	<u>216,901</u>	<u>467,017</u>
Current liabilities payable from restricted assets:		
Obligations under securities lending transactions	-	183,701
Bonds payable, net of deferred charges and credits of \$605 and \$917 in 2009 and 2008, respectively (Note 5)	102,395	17,052
Contracts and accounts payable	2,007	5,423
Accrued interest payable	6,686	1,392
	<u>111,088</u>	<u>207,568</u>
Current liabilities payable from restricted assets	<u>111,088</u>	<u>207,568</u>
Total current liabilities	<u>327,989</u>	<u>674,585</u>
Long-term liabilities:		
Bonds payable, net deferred charges and credits of (\$3,988) and \$6,363 in 2009 and 2008, respectively (Note 5)	1,008,672	278,773
Obligations under capital leases - less current portion (Notes 6 and 11)	48,207	49,518
Employee benefits and insurance claims payable (Note 6)	52,491	49,157
Unearned revenue (Note 6)	1,021	1,071
Liability for environmental/hazardous cleanup (Note 6)	12,783	-
Other liabilities (Notes 6 and 14)	56,617	114,494
	<u>1,179,791</u>	<u>493,013</u>
Total long-term liabilities	<u>1,179,791</u>	<u>493,013</u>
Total liabilities	<u>1,507,780</u>	<u>1,167,598</u>
Net assets:		
Invested in capital assets, net of related debt	2,113,612	2,259,002
Restricted:		
Capital projects	705	678
Debt service	186,337	33,193
Special purpose	730,420	721,611
Central utility plant	39,721	-
Unrestricted	428,241	216,058
	<u>428,241</u>	<u>216,058</u>
Total net assets	<u>\$ 3,499,036</u>	<u>\$ 3,230,542</u>

See accompanying notes to financial statements.

**LOS ANGELES WORLD AIRPORTS**  
 (Department of Airports of the City of Los Angeles, California)  
 Statements of Revenues, Expenses, and Changes in Net Assets  
 For the Years Ended June 30, 2009 and 2008  
 (Dollars in thousands)

	<u>2009</u>	<u>2008</u>
Operating revenue:		
Aviation revenue:		
Landing fees	\$ 185,553	\$ 193,805
Building rentals	215,365	177,362
Other aviation revenue	75,624	81,632
Concession revenue	299,814	316,116
Airports sales and services	2,541	2,911
Miscellaneous revenue	2,693	2,462
Total operating revenue	<u>781,590</u>	<u>774,288</u>
Operating expenses:		
Salaries and benefits	348,504	344,322
Contractual services	169,474	173,994
Material and supplies	45,173	45,502
Administrative expense	1,860	2,392
Utilities	34,348	33,608
Advertising and public relations	8,450	9,019
Other operating expenses	13,312	18,236
Total operating expenses before depreciation and amortization	<u>621,121</u>	<u>627,073</u>
Income from operations before depreciation and amortization	160,469	147,215
Depreciation and amortization	<u>(108,887)</u>	<u>(105,762)</u>
Operating income	<u>51,582</u>	<u>41,453</u>
Nonoperating revenue (expenses):		
Passenger facility charges (Note 12)	113,852	129,125
Interest income	57,488	54,704
Change in fair value of investments	2,606	24,123
Interest expense	(24,541)	(22,474)
Bond expense	(520)	(493)
Other nonoperating revenue (expense), net	(22,042)	1,366
Total nonoperating revenue, net	<u>126,843</u>	<u>186,351</u>
Income before contributions	178,425	227,804
Capital grant contributions (Note 13)	14,285	56,325
TSA contributions (Note 13)	75,784	68,967
Change in net assets	<u>268,494</u>	<u>353,096</u>
Net assets, beginning of year	<u>3,230,542</u>	<u>2,877,446</u>
Net assets, end of year	<u>\$ 3,499,036</u>	<u>\$ 3,230,542</u>

See accompanying notes to financial statements.

**LOS ANGELES WORLD AIRPORTS**  
 (Department of Airports of the City of Los Angeles, California)  
 Statements of Cash Flows  
 For the years ended June 30, 2009 and 2008  
 (Dollars in thousands)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Receipts from customers	\$ 689,439	\$ 790,019
Cash received in protest from customers	22,322	132
Payments for goods and services	(292,394)	(266,177)
Payments to employees	(343,098)	(326,721)
Other receipts/(payments), net	(9,746)	1,297
Net cash provided by operating activities	<u>66,523</u>	<u>198,550</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(534,804)	(557,147)
Receipts from passenger facility charges	114,533	130,621
Net principal received (paid) on bonds	815,937	(15,130)
Interest paid on bonds and commercial paper	(23,445)	(23,245)
Bond and commercial paper issuance cost paid	(5,267)	(112)
Bond payment liability set aside (returned) as escheated funds	94	(19)
Principal paid on capital leases	(1,197)	(1,140)
Interest paid on capital leases	(992)	(1,754)
Net receipts (payments) for commercial paper	(233,239)	151,483
Cash transferred from (to) fiscal agent	(158,534)	99
Federal grants and TSA receipts	86,503	125,291
Net cash provided (used) by capital and related financing activities	<u>59,589</u>	<u>(191,053)</u>
Cash flows from investing activities:		
Increase in fair value of investments	2,606	24,123
Interest received	56,407	59,637
Cash collateral paid under securities lending transactions	(183,701)	(18,134)
Net cash provided (used) by investing activities	<u>(124,688)</u>	<u>65,626</u>
Net increase cash and cash equivalents	1,424	73,123
Cash and cash equivalents, beginning of year	<u>1,459,311</u>	<u>1,386,188</u>
Cash and cash equivalents, ending of year	<u>\$ 1,460,735</u>	<u>\$ 1,459,311</u>
The following is a reconciliation of cash and cash equivalents to the statement of net assets:		
Cash and pooled investments held by the City Treasurer - unrestricted	\$ 608,085	\$ 468,833
Unrestricted cash held with fiscal agent	101,879	101,780
Cash and pooled investments held by the City Treasurer - restricted	750,771	888,698
	<u>\$ 1,460,735</u>	<u>\$ 1,459,311</u>

See accompanying notes to financial statements.

**LOS ANGELES WORLD AIRPORTS**  
 (Department of Airports of the City of Los Angeles, California)  
 Statements of Cash Flows (Continued)  
 For the years ended June 30, 2009 and 2008  
 (Dollars in thousands)

	<b>2009</b>	<b>2008</b>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 51,582	\$ 41,453
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	108,887	105,762
Change in provision for uncollectible accounts	(880)	(857)
Other revenues/(expenses), net	(22,065)	336
Changes in assets and liabilities:		
Accounts receivable	5,283	4,390
Unbilled receivables	(14,575)	11,341
Prepaid expenses and inventories	(333)	(1,278)
Contracts and accounts payable	(19,777)	16,574
Employee benefits and insurance claims payable	5,648	16,390
Unearned revenue	(50)	(50)
Salaries payable	(242)	1,212
Other liabilities	(46,955)	3,277
Total adjustments	14,941	157,097
Net cash provided by operating activities	\$ 66,523	\$ 198,550
Noncash capital and financing activities:		
Bond proceeds deposited to escrow account for bond refunding	\$ -	\$ -
Acquisition of capital assets included in contracts and accounts payable	52,286	51,949

See accompanying notes to financial statements.

**LOS ANGELES WORLD AIRPORTS**  
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements  
June 30, 2009 and 2008

**(1) Reporting Entity and Summary of Significant Accounting Policies**

**(a) Organization and Reporting Entity**

The financial statements of the Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

LAWA is an independent, financially self-sufficient department of the City of Los Angeles (the City) established pursuant to Article XXIV, Section 238 of the City Charter. LAWA operates Los Angeles International Airport (LAX), LA/Ontario International Airport (ONT), Van Nuys Airport (VNY) and LA/Palmdale Regional Airport (PMD) and collectively, the Airport System.

LAWA is under the management and control of a seven-member Board of Airport Commissioners (the Board) appointed by the City Mayor and approved by the City Council. Under the City Charter, the Board has the general power to, among other things: (a) acquire, develop and operate all property, plant and equipment as it may deem necessary or convenient for the promotion and accommodation of air commerce; (b) borrow money to finance the development of airports owned, operated or controlled by the City; and (c) fix, regulate and collect rates and charges for use of the Airport System. An Executive Director administers LAWA and reports to the Board.

The financial statements presented herein represent the financial position and changes in financial position and cash flows of LAWA only and are not intended to present fairly the financial position, changes in financial position, or cash flows of the City in conformity with GAAP.

**(b) Basis of Accounting**

LAWA is reported as an enterprise fund and maintains its records on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred. Separate funds are used to account for each airport in the Airport System. Only the funds of LAWA are included in the reporting entity. Bonds issued by LAWA are payable solely from revenues of LAWA and are not general obligations of the City. LAWA applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless such pronouncements conflict with or contradict GASB pronouncements. LAWA has elected not to follow private sector guidance issued after November 30, 1989.

**LOS ANGELES WORLD AIRPORTS**  
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

**(1) Reporting Entity and Summary of Significant Accounting Policies (continued)**

**(c) Cash and Pooled Investments**

All cash collections are deposited with and all payments are withdrawn from the City Treasurer with the exception of certain bond financing activity of LAWA's outstanding bonds. In order to maximize investment return, LAWA pools its available cash with that of the City, which is invested by the City Treasurer (see Note 3).

LAWA's investments, including its share of the City's pooled investments, are stated at fair value. Fair value is determined based upon market closing prices or bid/asked prices for regularly traded securities. The fair value of mutual funds, government-sponsored investment pools and other similar investments are stated at share value, or appropriate allocation of fair value of the pool, if separately reported. Certain money market investments with initial maturities at the time of purchase of less than one year are recorded at cost.

Interest income arising from such cash and pooled investments is apportioned to LAWA based on the relationship of LAWA's respective daily cash balances to aggregate cash and pooled investments.

**(d) Accounts Receivable and Unbilled Receivables**

LAWA recognizes revenue in the period earned. Receivables aged beyond 90 days are put into the collection process and then referred after 120 days to LAWA's resident City attorneys for possible write-off. An allowance for uncollectible accounts is set as a reserve by LAWA policy. This policy requires that 2% of outstanding receivables plus all referrals to City Attorney be reserved as uncollectible through a provisional month-end charge to operating expense. Unbilled receivable balances are the result of revenue accrued for services that exceed \$5,000 each, but not yet billed as of year-end. This accrual activity occurs primarily at year-end when services provided in the current fiscal period might not get processed through the billing system for up to sixty days into the next fiscal year. For fiscal year 2008, customer accounts with credit balances were offset to Unbilled Receivables.

**(e) Contracts Payable, Accounts Payable and Other Liabilities**

All transactions for goods and services obtained by LAWA from City-approved contractors and vendors are processed for payment via its automated payment system. This procedure results in the recognition of expense in the period that an invoice for payment is processed through the system, or when a vendor first provided the goods and/or services. If the goods and/or services were received or if the invoice was received but not yet processed in the system, an accrual is made manually by journal voucher into the general ledger to reflect the liability to the vendor. When LAWA makes agreements that require customers to make cash deposits, these amounts are then reflected as other current liabilities. Reserves for claims and litigation are recorded as other long-term liabilities.

**LOS ANGELES WORLD AIRPORTS**  
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

**(1) Reporting Entity and Summary of Significant Accounting Policies (continued)**

**(f) *Securities Lending***

The City Treasurer engages in securities lending activities. LAWA's share of assets and liabilities arising from the reinvested cash collateral has been recognized in the accompanying financial statements (see Note 3).

**(g) *Investments with Fiscal Agents***

LAWA has funds that are held by fiscal agents and pledged to the payment or security of the 1995, 2002, 2003, 2006 and 2008 bonds (see Note 3).

**(h) *Federal Grants***

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a federal grant receivable and as capital grant contributions in the statement of revenues, expenses and changes in net assets.

**(i) *Capital Assets***

All capital assets are carried at cost or at estimated fair value on the date received in the case of properties acquired by donation or by termination of leases, less allowance for accumulated depreciation. Such cost includes, where appropriate, interest capitalized as part of the cost of construction of capital assets. Maintenance and repairs are charged to operations in the period incurred. Renewals and betterments are capitalized in the asset accounts. LAWA has a capitalization threshold of \$5,000 for all capital assets.

**(j) *Landing Fees***

Landing fee rates are used to determine what fees are to be charged to the airlines each time that a qualified aircraft lands at either LAX or ONT. These fees are calculated using complex and unique allocation methods of relevant operating costs attributable to operational activities approved by the airlines. Two types of landing fee methods are applied by LAWA: compensatory and residual. Under a compensatory fee methodology, the fees charged by LAX for a facility or service are based on costs attributable only to that facility or service. For example, the landing fees charged for using the airfield and apron are based on LAWA's actual costs of operating the airfield and apron. Under a residual fee methodology, ONT sets the airlines' landing fees so that those fees provide the revenue needed to offset the difference between ONT's total expenses and the revenues collected by the airport from other sources, such as concession revenues and persons using its parking lots. For control purposes, the landing fees at LAX and ONT airports are calculated twice each fiscal year.

**(k) *Concession Revenue***

Concession revenue is generated through LAWA concessionaires or tenants, who pay monthly fees for using airport facilities to offer their goods and services to the general public and air traveling community. Payments to LAWA are based on negotiated agreements with concessionaires to remit amounts based on either a Minimum Annual Guarantee (MAG) or on gross receipts. Amounts recorded to concession revenue are determined by the type of revenue category set up in the general ledger system and integrated with the monthly accounts receivable billing process. Concession revenue is recorded as it is earned.

**LOS ANGELES WORLD AIRPORTS**  
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

**(1) Reporting Entity and Summary of Significant Accounting Policies (continued)**

**(k) Concession Revenue (continued)**

Some tenant agreements require self-reporting of concession operations and/or sales. The tenants' operations report and payment are due to LAWA in the month following the activity. The timing of concessionaire reporting and when revenue earned is recorded will determine when accruals are required for each tenant.

**(l) Depreciation and Amortization**

Depreciation expense includes amortization of assets under capital leases. Amortization of assets under capital leases is based on the shorter of the useful life of the asset or the lease term. Depreciation and amortization are computed on a straight-line basis. The estimated useful lives of the major property classifications are as follows: buildings and facilities, 10 to 40 years; landplane ports, 10 to 35 years; and equipment, 5 to 20 years. No depreciation is provided for construction work in process until construction is completed and/or the asset is placed in service.

**(m) Preliminary Costs of Capital Projects**

Preliminary costs of capital projects incurred prior to the finalization of formal construction contracts are capitalized. In the event the proposed capital projects are abandoned, the associated preliminary costs are charged to expense in the year of abandonment.

**(n) Operating and Nonoperating Revenue and Expenses**

Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. LAWA derives operating revenue primarily from landing fees, terminal space rental, auto parking, and concessions. LAWA's major operating expenses include salaries and employee benefits, fees for contractual services related to security and parking management, and other expenses such as depreciation and amortization, maintenance, insurance, and utilities.

**(o) Interest Expense**

Interest expense was \$24,541,000 for the year ended June 30, 2009 and \$22,474,000 for the year ended June 30, 2008. LAWA also capitalizes interest expense (net of interest earnings) for capital projects during construction. In fiscal year 2009, \$28,419,000 interest expense, net of \$581,000 interest earnings, for capital projects was capitalized. There was no capitalized interest expense for fiscal year 2008 because all outstanding bonds then were used for refunding purposes.

**(p) Unearned revenue**

Unearned revenue consists of concessionaire rentals and payments received in advance, which will be amortized to revenue on the straight-line basis over the applicable period.

**LOS ANGELES WORLD AIRPORTS**  
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

**(1) Reporting Entity and Summary of Significant Accounting Policies (continued)**

**(q) *Employee Benefits***

LAWA employees accumulate annual vacation and sick leave in varying amounts based on length of service. Vacation and sick leave is recorded as earned. Upon termination or retirement, employees are paid the cash value of their accumulated leave.

**(r) *Statement of Cash Flows***

Cash and cash equivalents as reported in the statement of cash flows include short-term, highly liquid investments that are both readily convertible to known amounts of cash and have maturities of three months or less at the time of purchase. Cash and investments (both restricted and unrestricted) held by the City Treasurer are, in effect, demand deposits and are therefore, considered to be cash equivalents.

**(s) *Use of Estimates***

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts in the financial statements and accompanying notes. Actual results could differ from the estimates.

**(t) *Reclassifications***

Certain reclassifications have been made to fiscal year 2008 amounts in order to conform to the fiscal year 2009 presentation.

**(u) *Inventory***

LAWA's inventory consists primarily of general office supplies and is recorded at cost on a first-in, first-out basis.

**(v) *Bond Premiums, Discounts, and Issuance Costs***

Bond premiums, discounts, issuance costs, and gains and losses on extinguishment are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount and deferred losses on extinguishment. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**(w) *Net Assets***

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

**LOS ANGELES WORLD AIRPORTS**  
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

**(1) Reporting Entity and Summary of Significant Accounting Policies (continued)**

**(w) Net Assets (continued)**

- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2009 and 2008, net assets of \$567.8 million and \$503.9 million, respectively, are restricted by enabling legislation.
- *Unrestricted Net Assets* – This category represents net assets of LAWA, not restricted for any project or other purpose.

**(2) Implementation of New Accounting Standards**

**(a) Governmental Accounting Standards Board (GASB) Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations.***

Effective from July 1, 2007, LAWA adopted the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement establishes standards for accounting and financial reporting for pollution remediation obligations. This Statement establishes a framework for recognition and measurement of pollution remediation liabilities that incorporates the following interrelated features:

- Obligating events;
- Components and benchmarks; and
- Measurement, included cash flow technique.

The implementation of GASB 49 did not have a significant impact on LAWA as of July 1, 2008 and 2007 or for the fiscal year ended June 30, 2008. For the year ended June 30, 2009, LAWA recorded \$12.8 million of pollution remediation obligations and has reported the amount as a liability for environmental/hazardous cleanup.

**(b) GASB Statement No. 51 - *Accounting and Financial Reporting for Intangible Assets***

Issued in June 2007, this Statement establishes standards for accounting and financial reporting for intangible assets, for all states and local governments. Types of assets that may be considered intangible assets include easements, water rights, timber rights, patents, trademarks, and computer software. LAWA has early implemented GASB 51 beginning in fiscal year 2009. LAWA purchased intangible assets in the amount of \$5.9 million in July 2008.

**LOS ANGELES WORLD AIRPORTS**  
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)  
June 30, 2009 and 2008

**(3) Cash and Investments**

*(a) Cash and Pooled Investments*

The cash balances of substantially all funds on deposit in the City Treasury are pooled and invested by the City Treasurer for the purpose of maximizing interest earnings through pooled investment activities but safety and liquidity still take precedence over return. Interest earned on pooled investments is allocated to LAWA's participating funds based on each fund's average daily deposit balance during the allocation period. Investments in the City Treasury are stated at fair value based on quoted market prices except for money market investments that have remaining maturities of one year or less at time of purchase, which are reported at amortized cost.

Pursuant to California Government Code Section 53607 and the Los Angeles City Council File No. 94-2160, the City Treasury provides an Annual Statement of Investment Policy (the Policy) to the City Council. The policy governs the City's pooled investment practices. The Policy addresses soundness of financial institutions in which the Treasurer will deposit funds and types of investment instruments permitted by California Government Code Sections 53600-53636 and 16429.1.

The Investment Advisory Committee (IAC) reviews investment performance and strategy. The IAC is composed of the City Treasurer as chairperson, the Office of the Mayor, City Controller, Chief Legislative Analyst, City Administrative Officer, Director of Office of Finance, and an external investment advisor.

The City Treasurer manages the General and Special Investment Pool. Refer to the City's basic financial statements included in its comprehensive annual financial report for complete disclosures related to the City's General and Special Investment Pools.

**LOS ANGELES WORLD AIRPORTS**  
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

**(3) Cash and Investments (continued)**

**(b) Investments Authorized by the City's Investment Policy**

The table below identifies the investment types that are authorized for LAWA by the City's investment policy for the General Investment Pool. The table also identifies certain provisions of the City's investment policy that address interest rate risk and concentration of credit risk.

	<u>Maximum maturities</u>	<u>Maximum concentration</u>
U.S. Treasury and federal agency securities	5 years	100%
Bonds issued by local agencies	5 years	100
Registered state warrants and municipal notes	5 years	100
Bankers' acceptances	180 days	40
Commercial paper	270 days	40
Negotiable certificates of deposit or time deposits	180 days	30
Yankee certificates of deposit	180 days	30
CRA certificates of deposit or time deposits	180 days	30
Repurchase agreements	32 days	15
Reverse repurchase agreements	92 days	5*
Medium-term corporate notes	5 years	30
Shares of a money market mutual fund	N/A	20
Securities lending program	5 years	20*
Asset-backed securities	5 years	20**
Collateralized mortgage obligations	5 years	20**
Local agency investment fund (LAIF)		(per state limit)***

\* The total of reverse repurchase agreements and the securities subject to a securities lending agreement may not exceed 20% of the total portfolio.

\*\* Combined total for mortgage-backed and asset-backed securities.

\*\*\* Current account limit is \$40 million.

*Credit Risk.* The City's pooled investment policy requires that for all classes of investments, except linked banking program certificates of deposits, the issuers' minimum credit ratings shall be Standard & Poor's Corporation (S&P) A-1/A or Moody's Investor Services (Moody's) P-1/A2 and, if available, Fitch IBCA F1/A. In addition, domestic banks are limited to those with a current Fitch Ratings BankWatch of "B/C" or better and an A-1 short-term rating.

At June 30, 2009 and 2008, LAWA has \$1,358,856,000 and \$1,357,531,000, respectively, invested with the City Pool, which represents approximately 23% and 24%, respectively, of the City Treasury's General Investment Pool. Refer to the City's basic financial statements for complete disclosures of the investments in the pool and related interest rate risk, credit risk, and concentration of credit risk for the City's General Investment Pool.

**LOS ANGELES WORLD AIRPORTS**  
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)  
June 30, 2009 and 2008

**(3) Cash and Investments (continued)**

*(c) City of Los Angeles Securities Lending Program*

The Securities Lending Program (the SLP) is permitted and limited under provisions of California Government Code Section 53601. The City Council approved the SLP on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP in priority order are: safety of loaned securities; and prudent investment of cash collateral to enhance revenue from the investment program. The SLP is governed by a separate policy and guidelines, with oversight responsibility of the Investment Advisory Committee.

The City's custodial bank acts as the securities lending agent. In the event a counterparty defaults by reason of an act of insolvency, the bank shall take all actions which it deems necessary or appropriate to liquidate permitted investments and collateral in connection with such transaction and shall make a reasonable effort for two business days (Replacement Period) to apply the proceeds thereof to the purchase of securities identical to the loaned securities not returned. If during the Replacement Period the collateral liquidation proceeds are insufficient to replace any of the loaned securities not returned, the bank shall, subject to payment by the City of the amount of any losses on any permitted investments, pay such additional amounts as necessary to make such replacement.

Under the provisions of the SLP, and in accordance with the California Government Code, no more than 20% of the market value of the General Investment Pool (the Pool) shall be available for lending. The City receives cash as collateral on loaned securities, which is reinvested in securities permitted under the Policy. In accordance with the California Government Code, the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans where either party can terminate a lending contract on demand, term loans shall have a maximum life of 90 days. Earnings from securities lending shall accrue to the Pool and shall be allocated on a pro-rata basis to all Pool participants.

Due to the extreme volatility in the financial markets over the past twelve months resulting from the worst global financial crisis, and counterparty risks, the City temporarily suspended its SLP in November 2008. The City, however, continues to monitor the financial markets and will re-enter the SLP market when deemed appropriate.

LAWA's share of cash collateral received and corresponding liability aggregated approximately \$0 and \$183,701,000 at June 30, 2009 and 2008, respectively. During fiscal years 2009 and 2008, collateralizations on all loaned securities were within the required 102% of market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the year. There was no credit risk exposure to the City because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

**LOS ANGELES WORLD AIRPORTS**  
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

**(3) Cash and Investments (continued)**

**(d) Investments with Fiscal Agents**

LAWA also maintains investments with fiscal agents that are pledged to the payment or security of LAWA's 1995, 2002, 2003, 2006 and 2008 bonds. These investments are generally invested in short-term investments under the control of the fiscal agents.

The investment practices of the fiscal agents are the same as those of the City Treasurer, and have similar investment objectives. These investments are restricted as to their use and have maturities designed to coincide with required bond retirement payments.

These investments are uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in LAWA's name.

LAWA's investments with fiscal agents were as follows (in thousands):

<u>Description</u>	<u>2009</u>	<u>2008</u>
Money Market Funds	\$ 244,359	\$ 109,872
U.S. Treasury Securities	50,543	26,397
Total	<u>\$ 294,902</u>	<u>\$ 136,269</u>

*Concentration of Credit Risk:* The money market funds are comprised of investments in the First American Treasury Obligation Fund and Federated U.S. Treasury Cash Reserve Fund and the entire U.S. Treasury Securities are invested in U.S. Treasury Bills.

*Interest Rate Risk:* The maturity date of the U.S. Treasury Bills invested in is less than one year and the weighted average maturity of the money market funds is as follows:

Federated U.S. Treasury Cash Reserve Fund – 51 days

First American Treasury Obligation Fund – 49 days

*Credit Risk:*

First American Treasury Obligation Fund – Aaa (Moody's) and AAA (Standard & Poor's)

Federated U.S. Treasury Cash Reserve Fund – Aaa (Moody's) and AAA (Standard & Poor's)

**LOS ANGELES WORLD AIRPORTS**  
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

**(4) Changes in Capital Assets**

Capital asset activity for the year ended June 30, 2009 was as follows (in thousands):

	<u>Balance at June 30, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2009</u>
Capital assets, not depreciated:				
Land and land clearance	\$ 705,017	\$ -	\$ -	\$ 705,017
Air easements	46,975	-	-	46,975
Intangible asset - ERC*	-	5,918	-	5,918
Construction work in process	948,299	503,454	(45,736)	1,406,017
Total capital assets, not depreciated	<u>1,700,291</u>	<u>509,372</u>	<u>(45,736)</u>	<u>2,163,927</u>
Capital assets, depreciated:				
Buildings	775,533	-	-	775,533
Improvements	1,233,927	56,514	-	1,290,441
Equipment and vehicles	188,343	26,516	(9,003)	205,856
Leased property	184,423	-	-	184,423
Total capital assets, depreciated	<u>2,382,226</u>	<u>83,030</u>	<u>(9,003)</u>	<u>2,456,253</u>
Less accumulated depreciation:				
Buildings	(372,742)	(19,693)	-	(392,435)
Improvements	(645,338)	(74,209)	8	(719,539)
Equipment and vehicles	(133,642)	(12,800)	4,149	(142,293)
Leased property	(100,155)	(4,551)	-	(104,706)
Total accumulated depreciation	<u>(1,251,877)</u>	<u>(111,253)</u>	<u>4,157</u>	<u>(1,358,973)</u>
Total capital assets depreciated, net	<u>1,130,349</u>	<u>(28,223)</u>	<u>(4,846)</u>	<u>1,097,280</u>
Total capital assets, net	<u>\$ 2,830,640</u>	<u>\$ 487,067</u>	<u>\$ (50,582)</u>	<u>\$ 3,261,207</u>

\*Environmental Reduction Credits

**LOS ANGELES WORLD AIRPORTS**  
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

**(4) Changes in Capital Assets (continued)**

Capital asset activity for the year ended June 30, 2008 was as follows (in thousands):

	<b>Balance at July 1, 2007</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at June 30, 2008</b>
Capital assets, not depreciated:				
Land and land clearance	\$ 705,017	\$ -	\$ -	\$ 705,017
Air easements	46,975	-	-	46,975
Construction work in process	452,102	507,290	(11,093)	948,299
Total capital assets, not depreciated	<u>1,204,094</u>	<u>507,290</u>	<u>(11,093)</u>	<u>1,700,291</u>
Capital assets, depreciated:				
Buildings	775,458	75	-	775,533
Improvements	1,187,807	46,135	(15)	1,233,927
Equipment and vehicles	178,399	13,647	(3,703)	188,343
Leased property	184,423	-	-	184,423
Total capital assets, depreciated	<u>2,326,087</u>	<u>59,857</u>	<u>(3,718)</u>	<u>2,382,226</u>
Less accumulated depreciation:				
Buildings	(353,025)	(19,717)	-	(372,742)
Improvements	(573,197)	(72,141)	-	(645,338)
Equipment and vehicles	(126,631)	(9,354)	2,343	(133,642)
Leased property	(95,605)	(4,550)	-	(100,155)
Total accumulated depreciation	<u>(1,148,458)</u>	<u>(105,762)</u>	<u>2,343</u>	<u>(1,251,877)</u>
Total capital assets depreciated, net	<u>1,177,629</u>	<u>(45,905)</u>	<u>(1,375)</u>	<u>1,130,349</u>
Total capital assets, net	<u>\$ 2,381,723</u>	<u>\$ 461,385</u>	<u>\$ (12,468)</u>	<u>\$ 2,830,640</u>

**LOS ANGELES WORLD AIRPORTS**  
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)

June 30, 2009 and 2008

**(5) Bonds and Commercial Paper Payable**

LAWA issued revenue bonds in 1995, 1996, 2002, 2003, 2006 and 2008 for various airport improvement projects at LAX and ONT and to refund previously issued debt. LAX's revenues are pledged as security for the bonds issued for projects at LAX and ONT's revenues are pledged as security for the bonds issued for projects at ONT. All revenues used specifically for repayment of bonds for both LAX and ONT are defined in LAWA's Bond Official Statement as Net Pledged Revenues. Net Pledged Revenues means, for any given period, the Pledged Revenues for such period less, for such period, the LAX and ONT Maintenance and Operation Expense.

The 1995 Revenue Bonds were issued in the amount of \$365,855,000 to finance capital improvements and repay certain indebtedness. The bonds are limited obligations of the Department payable from and secured by a pledge of LAX revenues. The 1996 Series Revenue Bonds were issued in the amount of \$123,075,000 to finance capital improvements of ONT. The bonds were limited obligations of the Department payable from and secured by a pledge of ONT revenues. In fiscal year 2003, LAWA issued \$217,175,000 of revenue bonds to fund LAX airport improvement projects and advance refund a portion of the 1995 bonds. In fiscal year 2007, LAWA issued \$90,155,000 of Refunding Revenue Bonds to refund all of the 1996 Series Revenue Bonds. The refunding of the 1996 Series Revenue Bonds resulted in an economic gain of \$12,519,000 and a reduction of \$47,454,000 in future debt service payments.

LAX issued three series of bonds totaling \$853,300,000 in fiscal year 2009. Total bond issuance costs were \$5,375,000 and the net discount amounted to \$9,861,000. The proceeds from the sale of these bonds were used to reimburse the Department for previous capital expenditures, pay for future capital expenditures, repay outstanding commercial paper notes and refund the balance of the LAX 1995 D bonds. LAX's revenues are pledged as security for the bonds.

The Department used cash from the LAX revenue fund to defease the balance of the LAX 1995 C bonds on July 15, 2008.

In September of 2008, bond proceeds were used to repay the balance of the Series A and Series B commercial paper notes leaving only the Series C notes outstanding. These Series C commercial paper proceeds are being used to fund deposits that have been placed into revocable escrow accounts used as an interim step toward maintaining the required IRS non-taxable definition for long term financing of defeasing outstanding airline debt issued to finance terminal improvements at LAX.

As of June 30, 2009, LAX had \$81.1 million outstanding in variable rate bonds. These bonds consisted of the LAX 2002 C1 bonds with a final maturity of 2020, the LAX 2002 C2 bonds with a final maturity of 2020 and the LAX 2003 A bonds with a final maturity of 2016. Pursuant to a Reimbursement Agreement for the LAX 2002 C1 - C2 bonds and the LAX 2003 A bonds, both dated March 1 2005, LAWA obtained credit enhancement and liquidity support for these variable rate bonds in the form of irrevocable transferable direct-pay letters of credit issued by BNP Paribas. The liquidity facility provided by BNP Paribas covers a par amount of up to \$81.1 million plus interest. If LAWA is unable to repay principal and interest on bonds funded by BNP Paribas, it would extend a term loan to LAWA that would be repaid within three years. The facility fee rate is .275% per annum and LAWA is required to pay a drawing fee of \$200 for each drawing under the letters of credit. The letters of credit for the bonds expire on March 10, 2010. Accordingly, these bonds are classified as current liabilities in the statement of net assets.

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Notes to Financial Statements (Continued)

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**(5) Bonds and Commercial Paper Payable (continued)**

Pursuant to a Reimbursement Agreement dated April 1, 2007, LAWA obtained credit enhancement and liquidity support for LAX's \$500 million commercial paper program in the form of an irrevocable transferable direct-pay letter of credit issued by Citibank and State Street Bank and Trust Company. This liquidity facility covers an amount of up to \$500 million plus interest. The letter of credit fee rate is .12% per annum and the commitment fee rate is .10% per annum. LAWA is required to pay a drawing fee of \$350 for each draw under the letter of credit. The letter of credit for the commercial paper program expires on April 1, 2012.

Outstanding revenue bonds at June 30, 2009 mature in varying amounts through 2038. Bond and commercial paper notes activity for the year ended June 30, 2009 were as follows (in thousands):

<u>Debt issue</u>	<u>Interest rate%</u>	<u>Balance at June 30, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2009</u>	<u>Due in one year</u>
Issue of 1995	5.00% to 8.38%	\$ 8,965		\$ (8,965)	\$ -	\$ -
Issues of 2002 Series A	4.10 to 5.25	32,450		-	32,450	-
Issues of 2002 Series C	1.10 *	57,400		-	57,400	57,400
Issues of 2003 Series A	1.01 *	23,700		-	23,700	23,700
Issues of 2003 Series B	4.00 to 5.00	83,120		(11,780)	71,340	12,395
Issue of 2006 Series A	4.50 to 5.00	76,995		(2,660)	74,335	2,790
Issue of 2006 Series B	5.40 to 5.59	5,915		(195)	5,720	210
Issue of 2008 Series A	3.75 to 5.50	-	602,075	-	602,075	-
Issue of 2008 Series B	3.00 to 5.00	-	7,875	(595)	7,280	1,070
Issues of 2008 Series C	3.0 to 5.25	-	243,350	(3,200)	240,150	4,225
Subtotal		288,545	853,300	(27,395)	1,114,450	101,790
Commercial paper Series A	1.49 *	158,400	-	(158,400)	-	-
Commercial paper Series B	1.53 *	75,000	-	(75,000)	-	-
Commercial paper Series C	1.70 *	96,828	161	-	96,989	96,989
Deferred charges and credits, net	N/A	7,280	-	(10,663)	(3,383)	605
Total		<u>\$ 626,053</u>	<u>\$ 853,461</u>	<u>\$ (271,458)</u>	<u>\$ 1,208,056</u>	<u>\$ 199,384</u>

Bonds and commercial paper notes activity for the year ended June 30, 2008 were as follows (in thousands):

<u>Debt issue</u>	<u>Interest rate%</u>	<u>Balance at July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2008</u>	<u>Due in one year</u>
Issue of 1995	5.00% to 8.38%	\$ 10,195	\$ -	\$ (1,230)	\$ 8,965	\$ 1,500
Issues of 2002 Series A	4.10 to 5.25	32,450	-	-	32,450	-
Issues of 2002 Series C	2.75*	57,400	-	-	57,400	-
Issues of 2003 Series A	2.59*	23,700	-	-	23,700	-
Issues of 2003 Series B	4.00 to 5.00	94,305	-	(11,185)	83,120	11,780
Issue of 2006 Series A	4.50 to 5.00	79,520	-	(2,525)	76,995	2,660
Issue of 2006 Series B	5.40 to 5.59	6,105	-	(190)	5,915	195
Subtotal		303,675	-	(15,130)	288,545	16,135
Commercial paper Series A	2.01*	30,000	128,400	-	158,400	158,400
Commercial paper Series B	1.41*	-	75,000	-	75,000	75,000
Commercial paper Series C	4.26*	148,745	1,199	(53,116)	96,828	96,828
Deferred charges and credits, net	N/A	8,244	-	(964)	7,280	917
Total		<u>\$ 490,664</u>	<u>\$ 204,599</u>	<u>\$ (69,210)</u>	<u>\$ 626,053</u>	<u>\$ 347,280</u>

\* Average variable rate.

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Notes to Financial Statements (Continued)  
 June 30, 2009 and 2008

**(5) Bonds and Commercial Paper Payable (continued)**

Future annual debt service requirements as of June 30, 2009, are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending June 30:			
2010	\$ 101,790	\$ 53,597	\$ 155,387
2011	31,755	52,553	84,308
2012	33,195	51,109	84,304
2013	34,745	49,574	84,319
2014	36,430	47,913	84,343
2015 – 2019	150,705	216,832	367,537
2020 – 2024	149,195	177,205	326,400
2025 – 2029	170,035	134,933	304,968
2030 – 2034	202,350	87,935	290,285
2035 – 2038	204,250	27,979	232,229
Total	<u>\$ 1,114,450</u>	<u>\$ 899,630</u>	<u>\$ 2,014,080</u>

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Notes to Financial Statements (Continued)

June 30, 2009 and 2008

**(6) Other Long-Term Liabilities**

Other long-term liabilities' activity for the year ended June 30, 2009 was as follows (in thousands):

	<u>Balance at June 30, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2009</u>	<u>Due in one year</u>
Employee benefits & insurance claims payable	\$ 56,008	\$ 5,939	\$ (291)	\$ 61,656	\$ 9,165
Unearned revenue	1,121	50	(100)	1,071	50
Obligations under capital leases	50,715	1,311	(2,508)	49,518	1,311
Liability for environmental/ hazardous cleanup	-	12,783	-	12,783	-
Other liabilities	120,054	136,066	(196,779)	59,341	2,724
Total	<u>\$ 227,898</u>	<u>\$ 156,149</u>	<u>\$ (199,678)</u>	<u>\$ 184,369</u>	<u>\$ 13,250</u>

Other long-term liabilities' activity for the year ended June 30, 2008 was as follows (in thousands):

	<u>Balance at July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2008</u>	<u>Due in one year</u>
Employee benefits & insurance claims payable	\$ 39,618	\$ 16,390	\$ -	\$ 56,008	\$ 6,851
Unearned revenue	1,171	50	(100)	1,121	50
Obligations under capital leases	51,855	-	(1,140)	50,715	1,197
Other liabilities	116,777	8,295	(5,018)	120,054	5,560
Total	<u>\$ 209,421</u>	<u>\$ 24,735</u>	<u>\$ (6,258)</u>	<u>\$ 227,898</u>	<u>\$ 13,658</u>

**(7) Related Party Transactions**

The City provides certain administrative, crash-fire-rescue, police services, and water and power to LAWA. The payments for these services, included in operating expenses for the years ended June 30, 2009 and 2008, were \$56,878,000 and \$56,101,000, respectively. In addition, LAWA collects parking taxes at LAX and ONT on behalf of the cities of Los Angeles and Ontario. Parking taxes collected and remitted to the cities of Los Angeles and Ontario were as follows (in thousands):

	<u>2009</u>	<u>2008</u>
City of Los Angeles	\$ 6,755	\$ 7,457
City of Ontario	3,280	4,587
Total	<u>\$ 10,035</u>	<u>\$ 12,044</u>

**LOS ANGELES WORLD AIRPORTS**  
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Notes to Financial Statements (Continued)

June 30, 2009 and 2008

**(8) Retirement System**

**(a) Retirement Plan Description**

All full-time employees of LAWA are eligible to participate in the Los Angeles City Employees' Retirement System (LACERS) of the City of Los Angeles, California, a single employer defined benefit pension plan. LACERS serves as a common investment and administrative agent for various City departments and agencies that participate in LACERS. LAWA makes contributions to LACERS for its pro rata share of retirement costs attributable to its employees.

LACERS provides retirement, disability, death benefits, postemployment healthcare benefits and annual cost-of-living adjustments based on the employees' years of service, age and final compensation. Employees with ten or more years of service may retire if they are at least 55 years old, or if the retirement date is between October 2, 1996 and September 30, 1999 at age 50 or older with at least 30 years of service. Normal retirement allowances are reduced for employees under age 60 at the time of retirement, unless they have more than 30 years of service and are age 55 or older. Employees aged 70 or above may retire at any time with no required minimum period of service. LACERS does not have a mandatory retirement age.

**(b) Actuarially Determined Contribution Requirements and Contributions Made**

The Board of Administration of LACERS establishes and may amend the contribution requirements of System members and the City. Covered employees contribute to LACERS at a rate (8.22% to 13.33%) established through the collective bargaining process for those whose membership began prior to January 1, 1983 and at a fixed rate of 6% of salary for those who entered membership on or after January 1, 1983. The City subsidizes member contributions as determined by the actuarial consultant of LACERS. LAWA's pro rata share of the combined actuarially required contributions (ARC) for pension and postemployment healthcare benefits and actual contributions made to LACERS were approximately \$44,900,000 (100% of ARC), \$46,800,000 (100% of ARC) and \$41,000,000 (100% of ARC) for the years ended June 30, 2009, 2008, and 2007, respectively. The ARCs for the years ended June 30, 2009 and 2008 were based on actuarial valuations performed as of June 30, 2007 and 2006, respectively.

The City's annual pension cost, the percentage of annual pension cost contributed to the plans, and the net pension obligation for fiscal year 2008-09 and the two preceding years for each of the plans are as follows (dollars in thousands):

	Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
LACERS	06/30/07	\$ 276,191	86%	\$ (81,723)
	06/30/08	286,367	100%	(79,972)
	06/30/09	272,331	100%	(77,749)

The City allocated a pro rata share of its net pension obligation to the LAWA and the amounts recorded at June 30, 2009 and 2008 were \$10,118,000 and \$9,459,000, respectively.

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Notes to Financial Statements (Continued)  
June 30, 2009 and 2008

**(8) Retirement System (continued)**

**(c) Funded Status of LACERS**

For complete information related to the funded status of LACERS defined benefit plan and contribution information, refer to LACERS' basic financial statements. The LACERS' basic financial statements can be obtained from LACERS, 360 East Second Street, 2<sup>nd</sup> Floor, Los Angeles, CA 90012.

**(d) Other Postemployment Benefits (OPEB)**

LAWA, as a participant in LACERS, also provides a Retiree Health Insurance Premium Subsidy. Under Division 4, Chapter 11 of the City's Administrative Code, certain retired employees are eligible for this health insurance premium subsidy. This subsidy is to be funded entirely by the City. Employees with ten or more years of service who retire after age 55, or employees who retire at age 70 with no minimum service requirement, are eligible for a health premium subsidy with a City-approved health carrier. LACERS is advance funding the retiree health benefits on an actuarial-determined basis.

Projections of benefits are based on the substantive plan and include the types of benefits in force at the valuation date. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset (obligation) for fiscal year 2008-09 and the two preceding years for the plan are as follows (dollars in thousands):

	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Asset (Obligation)
LACERS	06/30/07	\$ 115,233	100%	-
	06/30/08	108,848	100%	-
	06/30/09	95,122	100%	-

For complete information related to the funded status of LACERS OPEB plan and contribution information, refer to LACERS' basic financial statements. The LACERS' basic financial statements can be obtained from LACERS, 360 East Second Street, 2<sup>nd</sup> Floor, Los Angeles, CA 90012.

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**(9) Self-Insurance**

LAWA is part of the City's self-administered and self-funded workers' compensation system. Claims and judgments are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The liability for workers' compensation claims includes a provision for incurred but not reported claims and loss adjustment expenses. Payment to the Workers' Compensation Division of the City Personnel Department has been made based on cash payments for workers' compensation claims. LAWA's accrued total liability for workers' compensation has been based on the results of an actuarial study. A reconciliation of the accrued workers' compensation liability (included in employee benefits and insurance claims payable) is as follows (in thousands):

Liability at June 30, 2007	\$	36,999
Provisions for claims		6,079
Claim payments		(5,451)
Liability at June 30, 2008		37,627
Provisions for claims		3,053
Claim payments		(46)
Liability at June 30, 2009		40,634
Current portion		(4,961)
Long-term liability at June 30, 2009, net of current portion	\$	35,673

The LAWA Risk Management Division oversees a sophisticated, self-administered Risk and Claims Management program. Claims are administered in-house by a dedicated team of Analysts who will manage and direct a claim/lawsuit until resolved. LAWA Risk Management (in cooperation with its contracted broker of record) is responsible for placing General Liability insurance policies (including a War & Terrorism policy) up to the policy limits of \$1.0 billion for General Liability coverage and \$1.25 billion for War and Terrorism coverage. Additional lines of insurance include General Property Insurance, with policy limits of \$1.5 billion, Boiler and Machinery coverage and Earthquake insurance. These insurance limits are in excess of LAWA's deductible which for general liability insurance is \$10,000/claim with a \$300,000 annual aggregate and \$100,000 per occurrence and annual aggregate on Property insurance. The deductible for both Property and Liability insurance as well as the purchase of all insurance policies is budgeted and funded annually by the Risk Management Division. Historically, no liability or property claims have reached or exceeded the stated policy limits. LAWA also continues to maintain a catastrophic loss fund that is held in reserve to fund claims or losses that may conceivably breach insurance policy limits. The transference of risk exposure through the procurement of liability and property insurance has proven to be a very effective program for LAWA in its management of risk.

For other types of claims, commercial insurance is used when it is either legally or contractually required, or judged to be the most effective way to finance risk. LAWA's Risk Management Division estimates the risk exposure and uses the estimate together with past loss experience to determine maximum insurance coverage. For fiscal years 2009, 2008, and 2007, no claims were in excess of LAWA's insurance coverage. Other claims liabilities are reported in Other Long-Term Liabilities (see Note 6). LAWA maintains approximately \$2.5 billion coverage of property, casualty general liability and other lines of insurance. LAWA also maintains an annual budget to fund the deductibles for property damage, general liability, and additionally maintains a catastrophic trust fund for any claims, losses in excess of the stated insurance coverage limits.

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Notes to Financial Statements (Continued)

June 30, 2009 and 2008

**(10) Commitments and Contingencies**

As of June 30, 2009, a number of claims and lawsuits are pending against LAWA that arose in the normal course of operations. LAWA recognizes a liability for claims and judgments when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The following is a summary of certain matters related to LAWA's operations.

**(a) Environmental Issues**

As discussed in Note 2a, LAWA implemented GASB Statement No. 49 for the fiscal year ended June 30, 2009. This Statement establishes accounting and reporting guidelines for the recognition and measurement of pollution remediation liabilities. Through the normal course of operations, LAWA and its facilities are subject to potential environmental contamination and other environmental concerns.

LAWA bears full financial responsibility for the cleanup of environmental contamination on property owned by it. However, if the contamination originated based on contractual arrangements, this means that the primary responsibility for any such cleanup would be borne by the tenants, even if they declare bankruptcy. As property owner, LAWA assumes the ultimate responsibility for cleanup of such contamination in the event that the tenant is unable to make restitution. Accordingly, LAWA has established a comprehensive hazardous materials management plan for all facilities under its control. This plan calls for the evaluation of all property utilized by LAWA and the environmental cleanup of any sites found to be contaminated. This evaluation is an on-going process.

As part of this evaluation, LAWA conducts environmental monitoring to identify potential pollution sites that may require further investigation and remediation. Once LAWA makes a determination of potential remedial action, it commences site assessment, testing and/or clean-up activities. During the fiscal year ended June 30, 2009, LAWA identified two sites and began voluntary remediation (asbestos removal in both cases). Further, the Regional Water Quality Board (i.e., regulatory agency) notified LAWA of the need for remediation on groundwater contamination. LAWA is currently performing remediation based on this regulatory order. LAWA accrues pollution remediation liabilities when costs are incurred or amounts can reasonably be estimated. Under LAWA policy, estimated liabilities are determined by the Environmental Services Division based on the expected outlays to settle pollution remediation liabilities. Amounts accrued at June 30, 2009 totaled \$12.8 million. At this time, LAWA does not expect any recoveries reducing this particular obligation. For subsequent periods, LAWA will adjust estimated liabilities as new information becomes available, as LAWA's environmental remediation evaluation process is on-going.

**(b) High-Security Environment**

LAWA, like the rest of the North American air transportation system, has been adversely affected by the terrorist attacks that occurred in the United States on September 11, 2001 (the September 11 Events). Since the September 11 Events, due in part to the September 11 Events and in part to the slowdown in the national economy, significant declines have been experienced in aviation activity and enplaned passenger traffic, as well as in activity-based revenues consisting primarily of landing fees, passenger facility charges, concession

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Notes to Financial Statements (Continued)  
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**10) Commitments and Contingencies (continued)**

**(b) High-Security Environment (continued)**

revenues, and parking revenue. During fiscal year 2009, LAWA's passenger volume was 16.6%, or 12.3 million, below its pre-September 11<sup>th</sup> Events level.

As part of its program of proactively addressing heightened security concerns and requirements, LAWA has engaged in a review of its rates and charges, and has implemented revenue enhancements and expenditure controls that affect a variety of operating expenses. LAWA's capital improvement program was also reevaluated and several planned expenditures were suspended, except where the affected projects were near completion or essential from a security or safety standpoint.

Reductions in operating levels at LAWA from those which existed prior to the September 11 Events may continue for a period of time and to a degree that is uncertain. The future level of aviation activity and enplaned passenger traffic at LAWA will depend upon several factors directly and indirectly related to the September 11 Events, including, among others, the financial condition of individual airlines and the viability of continued service. A number of airlines are recovering from the economic difficulties they experienced immediately following the September 11 Events.

LAWA is unable to predict (i) the duration of current reduced air traffic volume, (ii) the long-term impact of the above-described events on costs and revenues of LAWA, (iii) the future financial condition of the airlines using LAWA's airports, or (iv) the likelihood of future incidents of terrorism or other air transportation disruptions.

**(c) Other**

Commitments for construction, the purchase of real property, equipment and materials and supplies amounted to \$125,800,000 and \$96,100,000 as of June 30, 2009 and 2008, respectively. Significant amounts in commitments for fiscal year 2009 are due to the following projects: \$44,300,000 for inspection testing, and surveying for the center taxiway, in-line baggage screening, runway projects, interior improvements at TBIT and midfield satellite concourse; and, \$30,500,000 for land acquisition.

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**(11) Capital Lease Agreements**

LAWA has entered into various lease agreements with certain airlines. These agreements are classified as capital leases and are for certain public areas at LAX. Final terms regarding some of these agreements have not yet been agreed upon. Nonetheless, the agreements generally provide for the payment of amounts over a remaining term of 27 years, with interest at the rate incurred by the lessor on their related borrowings, which include improvement bonds. The property capitalized under these lease agreements amounted to \$184,423,000 for both June 30, 2009 and 2008. Accumulated depreciation with respect to such property for the respective years was \$104,706,000 million and \$100,155,000 million, respectively.

Estimated future minimum lease payments under these agreements are as follows (in thousands):

Fiscal year ending June 30,	
2010	\$ 3,146
2011	3,268
2012	3,328
2013	3,439
2014	3,545
2015 – 2019	19,535
2020 – 2024	24,092
2024 – 2026	9,111
Total minimum lease payments	69,464
Less interest portion	(19,946)
Present value of minimum lease payments	\$ 49,518

LAWA currently uses rental credits to finance its obligations on capital leases with certain airlines. These rental credits are applied as an offset of amounts owed to LAWA by such airlines for terminal leases and landing fees.

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Notes to Financial Statements (Continued)

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**(12) Passenger Facility Charges**

In 1990, Congress approved the Aviation Safety and Capacity Expansion Act, which authorized domestic airports to impose a Passenger Facility Charge (PFC) on enplaning passengers. In May 1991, the FAA issued the regulations for the use and reporting of PFCs. PFCs may be used for airport projects that must meet at least one of the following criteria: (1) preserve or enhance safety, security or capacity of the national air transportation system; (2) reduce noise or mitigate noise impacts resulting from an airport; or (3) furnish opportunities for enhanced competition between or among carriers.

Since 1990, the following activities have taken place:

- In April 1993, the FAA granted LAWA's authority to collect PFCs at LAX and ONT in the amount of \$360,000,000 for 5 years for specifically approved airport improvement projects. Effective July 1, 1993, LAWA began collecting PFCs in the amount of \$3 per passenger.
- In 1996, LAWA received approval to transfer a portion of PFC revenue collected at LAX to fund projects at ONT. Effective January 1, 1996, the FAA approved LAWA's amended application to cease PFC collections at LAX after collecting approximately \$152,600,000.
- In May 1996, the FAA approved LAWA's request to transfer a portion of PFC revenues collected at LAX to fund approved projects at ONT. Accordingly, PFC charges totaling \$126,100,000 collected at LAX were transferred.
- In November 1997 and April 1998, the FAA approved LAWA's application to impose \$3 per passenger PFCs at LAX and ONT, respectively, for noise mitigation projects. Approved collections of \$150,000,000 at LAX were to be used for the soundproofing of City of Los Angeles residences and sound insulation of nearby city residences. Approved collections of \$45,700,000 at ONT were to be used for land acquisition and sound insulation of the City of Ontario residences.
- On October 2, 1998, the FAA approved LAWA's application to amend PFCs at LAX for noise mitigation projects. The amendment increased the total approved PFC revenue from \$150,000,000 to \$440,000,000.
- Effective August 1, 2003, the FAA approved an increase to the PFC charge at LAX from \$3.00 to \$4.50.

The PFC funds are recognized on the accrual basis of accounting, and the funds collected are restricted and may be used only on specifically approved projects. Due to their restricted use, PFCs are categorized as nonoperating revenues. All funds collected must be maintained in an interest-bearing account with the City Treasurer prior to disbursement.

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Notes to Financial Statements (Continued)

June 30, 2009 and 2008

**(12) Passenger Facility Charges (continued)**

Cumulative PFC collections and the related interest earned as reported to the FAA were as follows (in thousands):

	<b>2009</b>	<b>2008</b>
Amount collected	\$ 1,336,127	\$ 1,221,594
Interest received	170,029	145,979
Cumulative PFC collections	\$ 1,506,156	\$ 1,367,573

Collected but unexpended PFC revenue is included on the statement of net assets as restricted cash and pooled investments held by the City Treasurer. Related accrued interest income and PFC receivables are also reported as restricted assets.

**(13) Capital Grant Contributions**

Contributed capital related to governmental grants and other aid decreased by \$35.2 million to \$90.1 million during the year ended June 30, 2009. Capital grant funds were used for projects under the Airport Improvement Program and Transportation Security Administration security-related capital projects.

**(14) Terminal Rents**

LAX has lease arrangements at its passenger terminal facilities with American Airlines, Continental Airlines, Delta Air Lines, LAX TWO Corporation, and United Airlines (collectively, the “Long-term Airlines”) that have various terms of up to 40 years. Under these leases, the Long-term Airlines pay various charges, including maintenance and operations rent (“M&O Rent”) that reflects the expenses that LAX incurs in maintaining and operating the terminals. The M&O Rent rates are set each calendar year based on the actual audited M&O expenses for the prior fiscal year ending June 30.

Historically, less than the full amount of M&O expenses attributable to the airlines has been charged to the terminal tenants as M&O Rent. On December 18, 2006, the Board of Airport Commissioners (“BOAC”) approved a resolution setting the M&O Rent rate for 2006, effective January 1, 2006, based upon the full amount of M&O expenses expended in the year ended June 30, 2005 attributable to the airlines for all LAX passenger terminals.

The Long-term Airlines have objected to LAX’s calculation of the M&O Rents as approved by the BOAC for 2006. On January 18, 2007, American, Continental and United Airlines filed a complaint with the United States District Court objecting to the 2006 M&O Rents. Subsequently, Northwest Airlines, as the primary shareholder of LAX TWO, and Delta Airlines also filed objections. In February of 2008 and January of 2009, LAWA entered into interim settlement agreements and amendments to the interim settlement agreements with each of the Long-term Airlines resolving all disputed charges between January 1, 2006 and April 30, 2009. The agreements resulted in the issuance of credits for a portion of the amounts assessed to date. As part of these agreements, the Long-Term Airlines and LAWA agreed to work together to reach an agreement on future charges by April 30, 2009. Subsequently, Continental and American entered into additional amendments to

**LOS ANGELES WORLD AIRPORTS**  
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)  
June 30, 2009 and 2008

**(14) Terminal Rents (continued)**

the interim settlement agreements which resulted in an resolution of M&O Rents between May 1, 2009 and December 31, 2009 and an agreement to work together to reach an agreement on future M&O Rents by December 31, 2009. On February 18, 2009, LAWA reached an agreement with United Airlines to terminate their long term lease in terminal 6 and part of terminal 7 and now has the right to recover full M&O expenses attributable to that space. Negotiations have continued with all other parties.

Separately, the BOAC approved a new lease form on December 18, 2006 with a subsequent institution of a tariff on January 22, 2007. Certain carriers utilizing terminals 1 and 3 as well as carriers that operate from the Tom Bradley International Terminal objected to the tariff and filed a complaint with the Department of Transportation (“DOT”). The DOT issued its final decision on June 15, 2007. The decision resulted in a refund of a portion of the amounts assessed under the tariff to the complainants. A small number of tenants and sub-tenants were not party to the DOT action and continue to be assessed at the tariff rate. Subsequent to the DOT Supplemental Order on July 13, 2007, the carriers that were party to the DOT complaint filed a Petition to Review at the United States Court of Appeals regarding the DOT ruling.

On July 24, 2008, the BOAC approved a partial settlement agreement with the carriers operating in the Tom Bradley International Terminal resolving all disputed charges between January 1, 2006 and December 31, 2009. The agreement resulted in the issuance of credits for portions of the amounts that had been charged to date and created a framework for future negotiations on rates beyond December 31, 2009. On October 20, 2008, the BOAC authorized the executive director to enter into binding letter agreements with all current and new entrant carriers subject to the LAX Passenger Terminal Tariff offering interim rates and charges similar to the partial settlement agreement rates and charges framework pending the outcome of the DOT litigation. The agreements resulted in credits for portions of the amounts that had been charged to date.

Pending the resolution of these objections, LAX has classified the disputed cash portion of the M&O Rent and interest earned as “Cash under Protest” of \$33,548,000 and has not included these amounts as revenue. The disputed portion of the M&O Rent is classified as “Customer Liability–Protested Revenue” and “Interest Earned under Protest;” both amounts are included as part of other long-term liabilities reported in the Statement of Net Assets.

**LOS ANGELES WORLD AIRPORTS**  
(Department of Airports of the City of Los Angeles, California)

Notes to Financial Statements (Continued)  
June 30, 2009 and 2008

**(15) Subsequent Events**

**(a) Bond Issuance**

In July 2009, LAX issued \$85,000,000 Series B in commercial paper notes to partially finance the acquisition of the Park One Property. A total of \$126,563,000, which included the purchase price of \$125,000,000 plus closing costs, was spent on acquiring the 20-acre property.

LAX issued four series of bonds totaling \$689,325,000 in December 2009. The proceeds from the sale of these bonds will be used to reimburse the Department for previous capital expenditure, pay for future capital expenditures, repay the outstanding Series B (tax-exempt non-AMT) commercial paper notes, refund the LAX 2002 C1 bonds and purchase a portion of the LAX 2008 A bonds.

The LAX 2002 C1 bonds were redeemed on January 4, 2010. LAWA intends to redeem the LAX 2002 C2 and LAX 2003A bonds on March 1, 2010. The letters of credit will terminate upon redemption of the variable rate bonds.

**(b) Terminal Rents**

On August 7, 2009, the Court of Appeals issued its opinion on the U.S. DOT Decision regarding the complaint filed by the carriers operating in terminals 1 and 3 at LAX. The Court's opinion generally affirmed some of the Department's positions, but in any case, remanded the majority of the items under dispute back to the U.S. DOT for further review. The Department is unable to predict whether any further review of the Court of Appeals' ruling will be sought in the Supreme Court or how the U.S. DOT will rule on the issues remanded.

On November 6, 2009, City Council approved an amended and restated lease between United Airlines and LAWA covering terminal space leased by United in terminals 7 and 8. The amended and restated lease resolved all previous disputes between the parties over terminal rates and charges at LAX in terminals 7 and 8.

**SUPPLEMENTAL INFORMATION**

**LOS ANGELES WORLD AIRPORTS**  
**(Department of Airports of the City of Los Angeles, California)**  
Combining Statement of Net Assets  
June 30, 2009  
(With comparative totals at June 30, 2008)  
(Dollars in thousands)

	Los Angeles International Airport	Ontario International Airport	Van Nuys Airport	Palmdale Regional Airport	Eliminations	Totals	
						2009	2008
<b>ASSETS</b>							
Current assets:							
Cash and pooled investments held by the City Treasurer	\$ 560,759	\$ 47,326	\$ -	\$ -	\$ -	\$ 608,085	\$ 468,833
Investments with fiscal agents	101,879	-	-	-	-	101,879	101,780
Accounts receivable, net of allowance for uncollectible accounts	8,732	1,774	990	(182)	-	11,314	15,717
Unbilled receivables	42,781	(2,967)	323	1	-	40,138	21,997
Accrued interest receivable	4,426	229	-	-	-	4,655	4,594
Due from other agencies	45,957	-	-	-	(45,957)	-	-
Prepaid expenses and inventories	5,217	208	139	-	-	5,564	5,231
<b>Total unrestricted current assets</b>	<b>769,751</b>	<b>46,570</b>	<b>1,452</b>	<b>(181)</b>	<b>(45,957)</b>	<b>771,635</b>	<b>618,152</b>
Restricted assets:							
Cash and pooled investments held by the City Treasurer	691,212	55,714	3,843	2	-	750,771	888,698
Investments with fiscal agents	186,005	7,018	-	-	-	193,023	34,489
Accrued interest receivable	3,985	410	-	-	-	4,395	4,442
Passenger facility charge receivable	16,065	1,622	-	-	-	17,687	18,368
<b>Total restricted current assets</b>	<b>897,267</b>	<b>64,764</b>	<b>3,843</b>	<b>2</b>	<b>-</b>	<b>965,876</b>	<b>945,997</b>
<b>Total current assets</b>	<b>1,667,018</b>	<b>111,334</b>	<b>5,295</b>	<b>(179)</b>	<b>(45,957)</b>	<b>1,737,511</b>	<b>1,564,149</b>
Capital assets:							
Land and air easements	619,766	28,291	12,615	91,320	-	751,992	751,992
Buildings, improvements and equipment	1,775,169	423,807	51,499	21,355	-	2,271,830	2,197,803
Leased property	184,423	-	-	-	-	184,423	184,423
Intangible Assets	5,918	-	-	-	-	5,918	-
Less accumulated depreciation and amortization	(1,127,460)	(189,700)	(32,362)	(9,451)	-	(1,358,973)	(1,251,877)
Construction work in process	1,223,322	150,163	29,167	3,365	-	1,406,017	948,299
<b>Net capital assets</b>	<b>2,681,138</b>	<b>412,561</b>	<b>60,919</b>	<b>106,589</b>	<b>-</b>	<b>3,261,207</b>	<b>2,830,640</b>
Deferred bond issuance expenses	7,001	1,097	-	-	-	8,098	3,351
<b>Total noncurrent assets</b>	<b>2,688,139</b>	<b>413,658</b>	<b>60,919</b>	<b>106,589</b>	<b>-</b>	<b>3,269,305</b>	<b>2,833,991</b>
<b>Total assets</b>	<b>\$ 4,355,157</b>	<b>\$ 524,992</b>	<b>\$ 66,214</b>	<b>\$ 106,410</b>	<b>\$ (45,957)</b>	<b>\$ 5,006,816</b>	<b>\$ 4,398,140</b>

See accompanying independent auditor's report.

**LOS ANGELES WORLD AIRPORTS**  
**(Department of Airports of the City of Los Angeles, California)**  
Combining Statement of Net Assets (continued)  
June 30, 2009  
(With comparative totals at June 30, 2008)  
(Dollars in thousands)

	Los Angeles	Ontario	Van Nuys	Palmdale	Eliminations	Totals	
	International Airport	International Airport	Airport	Regional Airport		2009	2008
<b>LIABILITIES</b>							
Current liabilities:							
Current liabilities payable from unrestricted assets:							
Contracts and accounts payable	\$ 91,175	\$ 4,454	\$ 3,597	\$ 1,148	\$ -	\$ 100,374	\$ 116,136
Employee benefits and insurance claims payable	7,846	975	294	50	-	9,165	6,851
Salaries payable	5,121	726	380	35	-	6,262	6,504
Commercial paper notes payable	96,989	-	-	-	-	96,989	330,228
Due to other agencies	-	-	-	45,957	(45,957)	-	-
Current obligation under capital leases	1,311	-	-	-	-	1,311	1,197
Accrued interest payable	26	-	-	-	-	26	491
Unearned revenue	-	50	-	-	-	50	50
Other liabilities	1,946	346	289	143	-	2,724	5,560
<b>Current liabilities payable from unrestricted assets</b>	<b>204,414</b>	<b>6,551</b>	<b>4,560</b>	<b>47,333</b>	<b>(45,957)</b>	<b>216,901</b>	<b>467,017</b>
Current liabilities payable from restricted assets:							
Obligation under securities lending transactions	-	-	-	-	-	-	183,701
Bonds payable, net of deferred charges and credits	99,355	3,040	-	-	-	102,395	17,052
Contracts and accounts payable	1,749	258	-	-	-	2,007	5,423
Accrued bond interest payable	6,190	496	-	-	-	6,686	1,392
<b>Current liabilities payable from restricted assets</b>	<b>107,294</b>	<b>3,794</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>111,088</b>	<b>207,568</b>
<b>Total current liabilities</b>	<b>311,708</b>	<b>10,345</b>	<b>4,560</b>	<b>47,333</b>	<b>(45,957)</b>	<b>327,989</b>	<b>674,585</b>
Long-term liabilities:							
Bonds payable, net of deferred charges and credits	930,990	77,682	-	-	-	1,008,672	278,773
Obligation under capital leases	48,207	-	-	-	-	48,207	49,518
Employee benefits and insurance claims payable	44,840	5,643	1,652	356	-	52,491	49,157
Unearned revenue	-	1,021	-	-	-	1,021	1,071
Liability for environmental/hazardous cleanup	12,783	-	-	-	-	12,783	-
Other liabilities	56,501	116	-	-	-	56,617	114,494
<b>Total long-term liabilities</b>	<b>1,093,321</b>	<b>84,462</b>	<b>1,652</b>	<b>356</b>	<b>-</b>	<b>1,179,791</b>	<b>493,013</b>
<b>Total liabilities</b>	<b>1,405,029</b>	<b>94,807</b>	<b>6,212</b>	<b>47,689</b>	<b>(45,957)</b>	<b>1,507,780</b>	<b>1,167,598</b>
Net assets:							
Invested in capital assets, net of related debt	1,613,166	332,938	60,919	106,589	-	2,113,612	2,259,002
Restricted:							
Capital projects	180	525	-	-	-	705	678
Debt service	179,816	6,521	-	-	-	186,337	33,193
Special purpose	669,612	56,963	3,843	2	-	730,420	721,611
Central utility plant	39,721	-	-	-	-	39,721	-
Unrestricted	447,633	33,238	(4,760)	(47,870)	-	428,241	216,058
<b>Total net assets</b>	<b>\$ 2,950,128</b>	<b>\$ 430,185</b>	<b>\$ 60,002</b>	<b>\$ 58,721</b>	<b>\$ -</b>	<b>\$ 3,499,036</b>	<b>\$ 3,230,542</b>

See accompanying independent auditor's report.

**LOS ANGELES WORLD AIRPORTS**  
**(Department of Airports of the City of Los Angeles, California)**  
Combining Statement of Revenues, Expenses and Changes in Net Assets  
For the Year Ended June 30, 2009  
(With comparative totals for the year ended June 30, 2008)  
(Dollars in thousands)

	Los Angeles	Ontario		Palmdale	Eliminations	Totals	
	International Airport	International Airport	Van Nuys Airport	Regional Airport		2009	2008
Operating revenue:							
Aviation revenue:							
Landing fees	\$ 164,489	\$ 13,989	\$ 15	\$ -	\$ 7,060	\$ 185,553	\$ 193,805
Building rentals	185,457	25,383	3,863	662	-	215,365	177,362
Other aviation revenue	59,528	4,817	17,858	481	(7,060)	75,624	81,632
Concession revenue	265,182	34,613	1	18	-	299,814	316,116
Airport sales and services	2,229	247	57	8	-	2,541	2,911
Miscellaneous revenue	2,366	164	131	32	-	2,693	2,462
Total operating revenue	679,251	79,213	21,925	1,201	-	781,590	774,288
Operating expenses:							
Salaries and benefits	298,612	38,722	9,553	1,617	-	348,504	344,322
Contractual services	148,627	15,522	4,806	519	-	169,474	173,994
Materials and supplies	38,738	4,527	1,226	682	-	45,173	45,502
Administrative expense	1,951	(95)	5	(1)	-	1,860	2,392
Utilities	29,018	4,519	450	361	-	34,348	33,608
Advertising and public relations	7,967	139	268	76	-	8,450	9,019
Other operating expenses	(2,002)	10,899	2,948	1,467	-	13,312	18,236
Total operating expenses before depreciation and amortization	522,911	74,233	19,256	4,721	-	621,121	627,073
Income/(loss) from operations before depreciation and amortization	156,340	4,980	2,669	(3,520)	-	160,469	147,215
Depreciation and amortization	(86,927)	(18,355)	(2,669)	(936)	-	(108,887)	(105,762)
Operating income (loss)	69,413	(13,375)	-	(4,456)	-	51,582	41,453
Nonoperating revenue (expenses):							
Passenger facility charges	103,982	9,870	-	-	-	113,852	129,125
Interest income	53,602	3,721	165	-	-	57,488	54,704
Change in fair value of investments	2,723	(117)	-	-	-	2,606	24,123
Interest expense	(20,483)	(4,058)	-	-	-	(24,541)	(22,474)
Bond expense	(455)	(65)	-	-	-	(520)	(493)
Other nonoperating revenue (expense), net	(24,661)	112	2,507	-	-	(22,042)	1,366
Total nonoperating revenue, net	114,708	9,463	2,672	-	-	126,843	186,351
Income before contributions and transfers	184,121	(3,912)	2,672	(4,456)	-	178,425	227,804
Capital grant contributions	12,457	-	1,828	-	-	14,285	56,325
TSA contributions	75,784	-	-	-	-	75,784	68,967
Inter-agency transfers	(470)	-	470	-	-	-	-
Change in net assets	271,892	(3,912)	4,970	(4,456)	-	268,494	353,096
Net assets, beginning of year	2,678,236	434,097	55,032	63,177	-	3,230,542	2,877,446
Net assets, end of fiscal year	\$ 2,950,128	\$ 430,185	\$ 60,002	\$ 58,721	\$ -	\$ 3,499,036	\$ 3,230,542

See accompanying independent auditor's report.

**COMPLIANCE SECTION**



**MACIAS GINI & O'CONNELL** LLP  
Certified Public Accountants & Management Consultants

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SACRAMENTO

OAKLAND

WALNUT CREEK

NEWPORT BEACH

SAN MARCOS

SAN DIEGO

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Members of the Board of Airport Commissioners  
City of Los Angeles, California

We have audited the accompanying basic financial statements of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles, California, as of and for the year ended June 30, 2009, and have issued our report thereon dated December 30, 2009, except for the third paragraph of Note 15(a) as to which the date is January 4, 2010, which included an explanatory paragraph describing LAWA's implementation of Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, during the current fiscal year. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered LAWA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LAWA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of LAWA's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LAWA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of LAWA, in a separate letter dated December 30, 2009.

This report is intended solely for the information and use of LAWA's Board of Airport Commissioners, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Macias Jini & O'Connell LLP*

Certified Public Accountants

Los Angeles, California  
December 30, 2009

# ELECTED OFFICIALS, BOARD OF AIRPORT COMMISSIONERS & LOS ANGELES WORLD AIRPORTS STAFF

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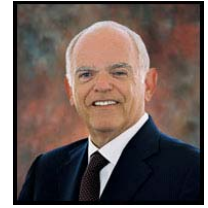
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### LOS ANGELES WORLD AIRPORTS

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*Executive Director*

Steve Martin  
*Chief Operating Officer*

Samson Mengistu  
*Deputy Executive Director*  
*Administration*

Roger A. Johnson  
*Deputy Executive Director*  
*Airports Development Group*

Debbie Bowers  
*Deputy Executive Director*  
*Commercial Development*

Michael Feldman  
*Deputy Executive Director*  
*Facilities Management Group*

Wei Chi  
*Deputy Executive Director*  
*Comptroller*

Dominic Nessi  
*Chief Information Officer*

David Shuter  
*Deputy Executive Director*  
*Facilities Engineering and Maintenance*

Jacqueline Yaft  
*Deputy Executive Director*  
*Operations and Emergency Management*

Michael DiGirolamo  
*Deputy Executive Director*  
*Operations, Research and Planning*

Michael Molina  
*Senior Director*  
*External Affairs*

Kelly M. Martin  
*General Counsel*

Corazon Salao  
*Accounting Operations*

Cynthia Guidry  
*Airports and Facilities Planning*

Intissar Durham  
*Airports Development Division*

Raymond Jack  
*Airport Manager, LAX*

Jess Romo  
*Airport Manager, LA/Ontario*

Selena Birk  
*Airport Manager, VNY*

Mark Thorpe  
*Air Service Marketing*

George Centeno  
*Chief - Airport Police*

Sandy Miller  
*Board Office*

Joyce Sloss  
*Business and Job Resources*

Nancy Niles  
*Community Relations*

Ralph Morones  
*Construction & Maintenance Services*

Stuart Susswain  
*Contract Services*

Robert Freeman  
*Environmental Services*

Theresa Prator  
*Ethics/Ombuds*

Jeffrey Smith  
*Facilities Engineering*  
*and Technical Services*

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*Financial Management Systems*

John H. Kantz  
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*Governmental Affairs*

Paula Adams  
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*Information Management and Technology*  
*Enterprise Architecture*

Nathan Look  
*Information Management and Technology*  
*Infrastructure*

Micaela LeBlanc  
*Information Management and Technology*  
*Systems and Program Management*

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